App. F. IX-4

Previous References

J. D. 36-34 (15 46) 1936-7 (J. S)

J. D. 36-34 (1-6, 10a, 10b, 10c, 11-13 Corr)

Letter References.

JS 9-38 (9, 10, 12, 18, 19, 25, 27, 29, 30, 33 to 51)

" 8-41-19, 22——30 & 6

File No. 38-36

Serial Nos. 1-2

GENERAL AND REVENUE SECRETARIAT.

Serial Nos. Two

1 95

Part B for Oct 37

SUBJECT.

Report on the investigation of the affairs of the Reliance Assurance Co

—29 & 8 & 16.10.37

To—

Regr. of Companies

WD 0418—GPB—22,500—29-8-36

State that the question of launching a prosecution may be dropped

G. R. S. APP. F. III—1] 1936-37

GENERAL AND REVENUE SECRETARIAT.

(98)

NOTES.

File No. 38

FILE HEADING.

Report on the investigation of the affairs of the Reliance Assurance.

FROM The Regr of Joint-Stock Companies

No. C 324/36-35 Dated 17-8-37 Received

Diary No. 635	Enclo:	Spare copies	Serial No.

BRIEF ABSTRACT OF LETTER

Forwards the report of inspection and of the affairs of the Company and opines that the case comes within the ambit of Section 282 of the Mysore Companies Regn

NOTES AND ORDERS.

1) The inspection of the accounts of the Co and the appn of the Inspecting officer was ordered vide Govt Order dt 1-9-36 & 13-1-37 respectively. The report discloses that the Mutual Benefit Scheme of the Co was started in spite of the advice of the actuary to the Company, and that there are several irregularities in the ma-

NOTES—First Sheet

accounts of the Co. Certain ... were surpluses & reserves are stated to have been entered in the accounts of the Co. The Law Section is to be consulted whether there are grounds for suspecting suppression of fraud in the working of the schemes. The Regr is of opinion that the case comes within the ambit of Section 162 of the Bombay Co's Regn. which was enacted for cases like previous experiences.

2) Mr. Sivadatt will please examine the report in the light of the provisions of the Regn.

Sec 137 of the Companies Regulation states that where the Registrar is of opinion that any information and explanation is necessary in any document ... Act Amendment he may call for it and the Registrar, after perusal of such information or explanation is of opinion that the document discloses an unsatisfactory state of affairs or does not give a true and fair state of matters, he shall report the same to Govt. Govt may appoint an inspector to investigate the affairs of the Company under Sec 138(4)

4) Note accordingly to the Section that the

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Flag A

Registrar reported to Govt on 4th May 1935 that the Balance Sheet of 1933 showed the false statements and revealed an unsatisfactory state of affairs of the Reliance Assurance Company, and that the Mutual Benefit Scheme a distinct branch of the business was working very unsatisfactorily. Govt accordingly under Sec 135 of the Regulation an Inspector to examine the accounts and audit the receipts of the Company from its inception and to report whether the affairs of the Company are satisfactory from the actuarial and audit point of view and also to find out during the course of audit whether there are any reasonable grounds for suspecting the Commission of fraud especially in the working of the Mutual Benefit Scheme and whether the Scheme was started on the advice of the Actuary.

Flag L & 9

5) The important points noticed in the Reports are summarised in Para 2 of the Covering letter of the Inspector to the Registrar of Joint Stock Companies. The Report contains information mainly about several irregularities in the M. B. Scheme and does not say anything clearly or definitely about the results of the examination of the accounts and the audit of receipts of the

NOTE—Contn. Sheet.

WD 0417—GPB—30,000—8-9-36

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Company's transactions from its incorporation in 1933. It looks as though the Inspector has gone through only the Mutual Benefit Scheme side and has not closely examined the general accounts of the Company which became notoriously deficit has been said about it.

6) On the question of the M. B. Scheme the Inspector states that it was started against actuarial advice. But with all the irregularities pointed out by him the Inspector is unable to say that the affairs of the Company are either satisfactory or unsatisfactory from an accounts point of view and suggests the examination by an actuary. Page 2 of Report

7) It is submitted that before appointing an Inspector the Comptroller was of opinion that the staff of his office can only look to the accounts and audit them that a separate inspection by an actuary would be necessary. The Registrar of Companies was also of opinion that a mere examination of the accounts may not serve the purpose of investigation and that it is desirable to get the affairs of the Company investigated by an actuary also. But Govt was of opinion that the Inspector should be able to report whether the affairs of the Flag B para 91-92

Flag para 103

Para 107

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Company are unsatisfactory from an Audit point of view and whether there is reason to suspect any fraud and that the question of extending the scope of investigation of taking any other action may be taken later on.

8) It was perhaps possible for the Inspector, if he had examined the accounts and counted the receipts of the Company, from it in certain 1923 to come to definite conclusions about the affairs of the Company from the account and Audit point of view. The absence of any such definite statement in the report leaves one to doubt whether the account & audit has been properly and fully gone through at all. Even as regards the M.B. scheme the report is indefinite and leaves the question to be re-examined by an Actuary. On the Commission of fraud also the report is indefinite and in conclusion and says that legal consultation is necessary. But the Inspector has given reports action to be taken under Sec 282 of the Regulations which says that whoever in any return or report Certificate or balance sheet makes a false statement in any material particular, knowing it to be false

Ref Flag H

Page 2-3 of letter Flag H

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shall be punishable with imprisonment of the description for a term which may extend three years and shall also be liable to fine

(5) It has to be examined whether there is sufficient material in the report to prove that the document produced under sec 137 of the Regulation viz. the Balance sheet for 1933. Contains definite information which is false so as to prosecute the auditors in a Court of Law. The report as it is, seems to be indefinite and even incomplete and does not seem to have been properly drawn up to contain definite information and Conclusion to enable Govt to decide either way and it would be very unsafe to proceed under section 282 on the strength of such of a report

(6) It is therefore for consideration and orders whether the registrar of J.V. Companies may not be asked to get a clear report from the Inspector with definite Conclusions as to whether the affairs of the Company (as a whole in Clause (a) of the 11-B and other schemes started by it) are satisfactory from an account and audit point of view and whether there is sufficient reason or material to suspect any fraud. ... Submitted for orders

24/6/37

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(1) Mr. Inspr has noted in para 2 of his letter to the Regr J. S. the chief defects and irregularities noted in the working of mutual Benefit Scheme

(2). He says that- this scheme was started in spite of the ~~adverse~~ adverse opinion of the Company's Actuary.

(3) On the question whether the affairs of the Company are satisfactory in the accounts and audit points of view the Inspr says that he is unable to give a definite answer. He considers that before any opinion on the point can be given it is necessary

(1) to obtain actorial valuation regarding the present position of the Insurance Business

(2.) to settle the amount of Commission payable to the Agents

(3) to obtain the opinion of an Actuary regarding the adequacy of the Reserve Fund

NOTE—Contn. Sheet.

WD 0417--GPB—30,000-8-9-36

31/p837/6357

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4) On the question of fraud the Insp[ector] states that there are sufficient grounds for taking action under S 282 of the Companies' Agn. If a case under that section is to succeed it should be proved that the Company's balance sheet or other document is false in a material particular and that the falsification is wilful. The Law Branch may be consulted

dw Secy 30.6.37

15) 1.7.37

16) Dy Secy Law Dept NE 2.7.37

2

Law Br 2.7.37

Serial No.

17) 1. The question for consideration is whether there are sufficient grounds for taking action under Section 282 of the Companies Regulation as recommended by the Inspector of the Accounts and the Registrar of Joint Stock Companies. Section 282 provides that 'whoever in any return, report, certificate, balance sheet or other document, required by or for the purposes of any of the provisions of this Regulation wilfully makes a statement false in any material particular, knowing it to be false, shall be punishable with imprisonment of either description for a term which may extend to three years, and shall also be liable to fine'

18) 2. From the above, it is obvious that the persons to be prosecuted should have wilfully made a statement false in any material particular, knowing it to be false From the file relating to the appointment of an Inspector I find that it was in respect of reference made by the Registrar of Joint Stock Companies on 10-5-35 about the alleged unsatisfactory state of affairs as disclosed by the Balance Sheet of the Company for 1933, that an investigation by an Inspector was ordered by Government. Presumably therefore, the present recommendation for a prosecution under Section 282, also relates to the alleged falsity of the balance sheet for 1933. We have therefore to see if the balance sheet for 1933 is false

NOTE—Contn. Sheet.

WD 0417—GPB—30,000—8-9-36

in a material particular and whether such falsification is wilful. It may also be observed that where the points involved are really technical matters, they do not normally fall within this Section, at any rate where no dishonesty or motive for dishonesty is shown (vide A.I.R.1929 Bom. 443).

19) 3. I have gone through the Inspector's Report very carefully, but I ~~do~~ do not find specific allegations in which material particulars the balance sheet is false. The report no doubt points to several alleged irregularities and defects which it is highly desirable that the Company should avoid. But our present concern is only to see if the balance sheet is false.

20) 4. A balance sheet can be said to be false when with a view to create a false impression on the minds of the public about the stability ~~of~~ or the soundness of the company, the assets are fraudulently inflated or assets which are not really in existence are shown as existing, and the liabilities are not correctly disclosed. The Inspector's report, though elaborate and critical, does not say that any such thing has been done. He was asked to state whether the affairs of the Company were satisfactory from the accounts and audit point of view. In other words he had to examine whether moneys received have been properly accounted for

and whether expenditure had proper sanction and whether payments said to have been made have been actually made Regarding these points there is no adverse comment by the Inspector and he admits that the reserve fund is dul invested and an actuary's opinion is necessary to find out if the above amount is sufficient to meet the contingent liabilities. Without such an opinion he is unab to say if the condition of the M.B.Scheme is satisfactor or not. Regarding the present position of the Regular Life Assurance business, he says that an actuarial valua tion is necessary. It is thus seen that he does not advance any definite charges against the Company. In this connection it seems necessary to bear in mind the distinction between the reserve fund in the M.B.Scheme and the Life Insurance fund in the Regular Life Insuranc Scheme. The former is only an emergency fund which has to be resorted to only when on account of a large number of deaths in any one month the call amounts collected m not be sufficient to pay the guaranteed amount to the nominees whereas the Life Insurance Fund forms the sourc from which the Policies are paid.

24) 5. The Inspector however, finds fault with the Company for certain commissions and omissions and I shall only briefly discuss some of them. It is said that the M.B.Scheme was started in ~~the~~ spite of the advice of the

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then Actuary to the contrary. It is admitted that the M.B.Scheme does not fall under the scope of the Insurance Act. The Scheme is no doubt condemned as being inherently defective. But it is significant that in the Insurance Year Book 1929, there is no condemnation of such a Scheme and since 1931 and onwards the Scheme is being condemned as unsound etc., On working the Scheme for a period of 32 months and gaining experience and in consultation with their present actuary, the Company has closed the Scheme to new entrants in February 1933.. Now there are 3 Schemes under the Higher Life Assurance Business, especially designed with the approval of the Company's actuary.available not only to the members whose certificates are in force but also to defaulters in order to convert their certificates into Life Policies. It looks to me therefore that their action in promptly closing the Scheme exhibits their good faith rather than their mala fides and shows their anxiety to do their duty to their members.

22) 6. The next change is that the Company misapplied Rule 11 (b) in the matter of over payment of death claims by taking at the initial stage two months' collections instead of one month's as provided in the Rule. According to the Inspector and the

Registrar Rule 8 permits that the sums received within one month only from the date of notice are available for distribution. I do not think that the rule has such a restricted meaning; moreover it has to be read with Rule 14 which provides that the calls for any one month could be paid within two months from the date of issue. An illustration will make this point clear. Suppose there are 1000 members and there is a call. If all the members promptly responded to the call and paid up within a month, then Rs.1000/- would be availat for distribution during that month; but let us suppose that taking advantage of Rule 14, only 400 persons paid within one month and the other 600 persons paid in the following month, then according to the interpretation of the Inspector, only Rs.400/- should be distributed, while according to Company's interpretation the total collection for two months (being the time permitted by the rules) should be made available for distribution It will be seen that the Company's interpretation would be to the greater advantage of the members of the M.B. Scheme. The test is whether the collections for two months made available for distribution relate to collections from members who had received call notice in the first month or if payments made by the same member during the two months in respect of different calls have been

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clubbed together for distribution. If the former is the practice, there cannot be anything wrong about it, and if the latter is the practice, it is certainly objectionable. There is no suggestion in the report that the amounts received from the same member in two consecutive months in respect of different death calls have been taken into account for distribution among the nominees entitled to payment during the first month. It cannot therefore be a case of wrong application of Rules.

23) 7. The next objection raised is that the payment of bonus to staff from the working fund of the M.B.Scheme is against the rules of the Scheme. In this connection we have to remember that the Company has undertaken various kinds of business viz., Life Insurance, Industrial Assurance and Mutual Benefit Scheme and the Company as a whole, is responsible for the successful working of these schemes Rule 9 of the M.B.Scheme Rules clearly permits the appropriation of a portion of the call amount to management charges.

24) 8. Another objection raised is that the forfeitures were effected indiscriminately and without adequate cause. But it is significant that both the Inspector and the Registrar clearly admit that the alterations in the Rules (No.8) had been duly notified

by incorporating them in the notices of call, by the issue of circulars and by publicity in news papers.

It is also found incorporated in September 1932 edition of the prospectuses. If in spite of such wide publicity of the alteration in Rules, the members made defaults, they seem to have no reasonable ground for complaint against forfeiture or against the Company's refusal for reinstatement. It is not suggested that the forfeitures have been against the rules of the scheme and the objection seems to be that re-instatements could have been more liberal. The forfeitures have been said to be most drastic from May 1934 to end of November 1934, the refusals being 526 out of 1097 applications recorded. It is seen that the percentage of reinstatement comes to 52. Unless each case of refusal is examined individually it is difficult to say if the refusal was indiscriminate or callous and even then the question of reinstatement is purely a matter of discretion.

The same Company has refused 77 out 1119 applications for renewal between December 1934 and December 1935.

It may also be remarked that the injurious effect of the refusal to reinstate, has practically been mitigated, by giving a chance to defaulters and members who have been denied reinstatement, to convert their certificates to Regular Life Insurance Policies.

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25) 9. The Registrar also objects that in the balance sheet for 1933, a sum of Rs.4375/- under capital has been shown to be in arrears and there is no means of recovering it now as it is barred limitation. But I must say that this objection is not a valid one, and it is answered by the Inspector himself in his report where he says 'But there is nothing to prevent the company from keeping the debt open and such an exhibition of the arrears in the Balance Sheet, as is done in that of this Company, is usual'. He only suggests that to avoid a possible misconception, the year from which the amount is outstanding may be noted in the Balance Sheet.

26) 10. As I stated at the outset, we are at present concerned not with the irregularities or the defects in the working of the Company, but with the alleged falsity of the balance sheet. The irregularities and defects, though to be deprecated, and avoided, cannot form basis of the prosecution. To a successful prosecution, it is necessary to prove that the balance sheet is false in a material particular and that such falsification is wilful, and that the false statement was made knowing it to be false. But as I have already shown, the Inspector's report is in

6357/36

General and Revenue Secretariat | M. File No. 38 of 1936. | [App. F. III—2

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decisive on the point and suggests that an actuary's opinion is necessary. In view of this and of the discussions in the foregoing paragraphs, it looks to me that this is not a fit case for launching prosecution under Section 282 of the Company's Regulation.

PDKR 28.8.37

Under Secy Director W.E.

27) For perusal. The Regr J.S.C will be informed accordingly.

Sd/- 28.8.37

28) The Registrar might be informed vide his no. 97 of 1937-38 dated 2.9.1937

MW. 1-9-37

29) Forwarded with compliments to the Regr Joint Stock Companies Mysore in favour of remarks

Sd/- Kisenswamy 2.9.37

With Jo 35-34 (1-6.10 a. 10 b. 10 c-11-13.14) dt (15-16)

Sd/- 3/9

REGISTRAR OF JOINT STOCK COMPANIES IN MYSORE RECEIVED Date 3/9/37 REG. NO C 344/34

WD 03594—GPB—30,000—18-7-

investigation of the affairs of
The Mahaima Co Ltd

File No. 38 of 193 6 | General and Revenue Secretariat

Memo No.C.344/34-35 dated the 21st September 1937.

30) Returned with compliments. The opinion of the Law Section is that this is not a fit case for prosecution under Section 282 Mysore Companies Regulation. I do not want to press for further-investigation of the affairs of the Company by an Actuary or by another Inspector, in view of para 2 of the notes of the Law Section.

JS 24/9/37

22-9-37

OFFICE OF THE SECOND MEMBER OF COUNCIL. 1 SEPT. 1937 No 2518

GG. REGISTRAR.

submitted ~~for orders~~ ~~note~~ with regard to paras 24 & 28 supra

22/9/37

Refer para - 28

23.9.37

Should the prosecution not be dropped.

Secretary

24.9.37.

28.9.37

28/9/37

29.9.37

Dft reply to the Registrar

29.9.37

6/10/37

TYPING SECTION 6 OCT 1937 GENL & REVENUE

B 27/10/37

8 2958 dt 16.10.37 to Regr. of Companies.

States that the question of launching a prosecution against the Co. may be dropped

38 34-1

344/34-35
Enclosure Eighteen

Office of the Registrar of Joint Stock Companies in Mysore,
Bangalore, dated the 15th May 1937.

DEVELOPMENT SECTION
6327
18 MAY 1937
DEVELOPMENT BRANCH

From

S. Abdul Wajid, Esq., B.A.,
Registrar of Joint Stock Companies in Mysore,
BANGALORE.

To

M. Venkatanaranappa, Esq., B.A.
Secretary to the Government of His Highness
the Maharaja of Mysore, Development Department
BANGALORE.

Sir,

With reference to the correspondence ending with this office letter No. C.344/34-35 dated 17th February 1937 regarding the investigation of the affairs of the Reliance Assurance Company, Limited, I have the honour to forward herewith a copy of the report received from the Inspector Mr. H.V. Venkatarama Iyengar.

The report points to a number of serious irregularities generally in the working of this company, and particularly in that of the Mutual Benefit Scheme. This latter Scheme would seem to have been started on 30th July 1930 with a view to finance the declining insurance business, inspite of the adverse advice of Mr. Madhava, M.A., A.I.A., etc., the Company's actuary. Three years later in 1933, Mr. Maratney, the newly appointed actuary opined also that the Scheme was unsound and would lend itself to fraud. Yet it was continued without the doubtful points in the rules being cleared and a modified scheme suggested by the Actuary

Actuary placed before the General Body on 17th December 1931 and notified in the report of the Directors being brought into operation.

One of the inducements in this Scheme offered at the initial stages was overpayments of death claims by taking two months' collections instead of one month's according to rule 11 (b). The distribution of a sum of Rs.1,000/- to each nominee continuously for a year by a manipulation of the rules made the Scheme very popular-the number of certificate holders going from 1071 in 1930 to 25,570 in 1933. The Scheme progressed satisfactorily till October 1932 when the claims according to this interpretation of the Rule could not be readily met by the Company. The rules were then strictly adhered to and only a month's receipts were taken into account in satisfying the claims of the nominees.

Rule (No.8) laying down that the monthly premiums should be paid in the month in which there was a death and of which due notice was given. was so changed that the premium was made payable every month, irrespective of the occurence or not of a death. The forfeitures between May and November 1934 seem to have been effected indiscriminately and without adequate cause and these combined with a refusal on the part of the management to reinstate the defaulters brought the Company in to disrepute, though the alterations in the rules had been duly notified by incorporating them in the notices of Call, by the issue of circulars and by publicity in newspapers. The Scheme was stopped for new entrants with effect from 1st March 1933

The misapplication of the rules resulted in incorrect and insufficient provision for Reserve Fund, wrong surplusses and irregular appropriation thereof to declare a dividend and bonus.

According to Rule 11 (b) the amount of call not availabl for distribution should have been transferred to the Reserve Fund and this was not done. The effect of transfer of so large an amount as Rs.14,776-0-4 to Life Insurance business is in effect an appropriation of a portion of the Reserve Fund of the Mutual Benefit Scheme contrary to Rule 11. During the year 1932, the Reserve Fund and the surplus income should be Rs.38,942-6-0 and Rs.5,223-3-0 respectively and not - Rs.36,277-6-0 and Rs.7,887-3-3 respectively as published in the printed Revenue Account and the amount was used for payment of the Dividend, Bonus to Staff, and the Dividend Equalisation Fund. Payment of Bonus to staff from the working fund of the Mutual Benefit Scheme is against the rules of the Scheme.

The sum of Rs.12,875-12-6 being the excess amount inaccurately provided for commission due to Agents in 1931 and 1932, was taken as receipts during the year 1933 and was utilised for distribution of Dividends in 1933.

The published accounts for the years 1932 and 1933, do not reflect the Company's true and correct position as incorrect surpluses based on incorrect interpreation of the rules have been shown and these surpluses have been appropriated towards the declaration of Dividend (and incidentally bonus).

According to Rule 7 annual fees are to be collected from the Members only and the commission to the Managing Agents has to be paid on the annual fees only. The commission paid to the Agents on the amounts paid towards expenses by defaulters who were not reinstated is not in order. The payment of Travelling Allowance to the Managing Agents even though they travelled by the Company's car, disbursement without proper vouchers, large advances to an Agent without taking any security according to the terms of the agreement, etc.,-

all these indicate that the Board of Directors ~~were~~ reckless in the handling the funds and appear to have conducted the affairs of the Company without a due sense of their responsibility.

The cash book is defective. It is reported that this Register of daily cash transactions (the Cash Book, the primary and the most important financial record) has not been properly written up nor the cash balance verified, excep for the solitary verification made on 6th July 1932 by the auditor of the Company. After the close of the Cash Book on 31st December 1931, some belated entries in the Cash Book are reported to have been made, resulting in an excess cash which was paid to the Accountant. This excess in cash should not have been credited to the account of the Accountant, who should have been held responsible for the belated entries.

For these and the various other reasons referred to in the report, I am of opinion that this case comes within the ambit of Section 282 Mysore Companies Regulation.

The records are herewith forwarded.

I have the honour to be,
S i r,
Your most obedient servant,

REGISTRAR.

The Registrar of Joint Stock Companies
in Mysore,
BANGALORE.

Sir.

I beg to submit herewith my report on the Inspection of the Reliance Assurance Company Limited, Bangalore, undertaken by me in accordance with the Government Order No.D.4339-40/J.S.36-34-11 dated12/13th January 1937, directing the examination of the Accounts of the Company, since its incorporation in 1923. The period of accounts examined is from 1923 to the end of the calender year 1935.

2. With reference to the confidential D.O. letter No.D.4341/J.S.36-34-11 dated 12/13th January 1937, I note below the important points observed in the working of the Mutual Benefit Scheme are:

i. starting of the Scheme inspite of the adverse opinion of the Company's Actuary (para 2(a) of the Report).

ii. inaccurate application of the Rules in the prospectus of the Scheme

iii. overpayment of Death claims (para 7) and wrong appropriation of call amounts (para 8)

iv. insufficient provision to the Reserve Fund (paras 7 & 8)

v. Inaccurate calculation and incorrect appropriation of the surplus of income over expenditure (paras 6 and 8)

vi. severe forfeitures at a certain stage though rules are liberal for reinstatement (para 9, b)

vii. Nonverification of cash in 1931 and wrong credit afforded to the accountant of the Company, who was writing the accounts (para 14 a)

viii. Loss of company's money arising out of payment of large advances and not taking cash security from an agent which was required to be taken by the terms of the agreement entered into with him by the Company. (para 10 (ii)

3. The terms of reference contained in the Government Order No.D.4339-40/J.S.36-34-11 dated 12/13th January 1937 and Confidential D.O. No.D.4341 etc.. dated 12/13th January 1937 are,

(a) Whether the Metual Benefit Scheme was started on the

advice of an Actuary,

(b) whether the affairs of the Company are satisfactory from the accounts and audit points of view, and

(c) whether there are reasonable grounds for suspecting the commission of fraud in the working of the Mutual Benefit Scheme.

Regarding (a) The Metual Benefit Scheme was started in spite of the advice of the Company's Actuary to the contrary as explained in detail in para (2) (a) of the Report

Regarding (b) The Reserve Fund is Rs.1,41,529-4-2 on 31st December 1936 and is invested in the State Loan Bonds, Fixed Deposits etc, as explained in para 15 (d) of the Report. Whether the above amount is sufficient to meet the contingent liabilities as contemplated in Rule 10 (b) of the Prospectus of the Scheme in view of the insufficient contribution to the Fund due to overpayments, wrong appropriation of death calls as a result of incorect application of the Rules of the Mutual benefit Scheme (explained in detail in paras 7 and 8 of the Report) is a point on which an Actuary's opinion is necessary. In addition there is a difference of opinion in the interpretation of the terms of the agreement between the Chief Agent Messrs Nilkantan & Company and the Company, regarding the commission to be paid (vide para 10 ii (a)). Actuary's opinion and definite decision on the latter point are necessary before pronouncing an opinion on the satisfactory condition or otherwise of the Mutual Benefit Scheme.

Regarding the Regular Life Insurance Scheme, the Actuary of the Company has arrived at a surplus of Rs.1,979/- (vide para 17 of the Report) taking for the purpose of his valuation of the Life Insurance Fund at Rs.11,047/- as on 31st December 1933. This amount was the result of the appropriation of Rs.15,090-2-11 from the Mutual Benefit Scheme (vide para 6 of the Report) and without this transfer, there would be a deficit, which shows that the working of the Insurance Scheme was unsatisfactory. Actuarial valuation is necessary to find out the present position of the Insurance Business.

Regarding (c), Legal opinion is necessary to see whether there is a suggestion of Fraud or not from the facts of the case as set out in the Report. In my view, however, there seems to be sufficient grounds to apply ~~article~~ Section 282 of the Mysore Company's Regulation to the facts of the case.

4. A copy of the prospectus of the Mutual Benefit Scheme is enclosed for information and reference.

I beg to remain,
S i r,
Your most obedient servant,

(Sd) H.V. Venkatarama Iyengar.

Inspector of the accounts of the
Reliance Assurance Company, Ltd.,
Bangalore.

True copy
Illegible
for Registrar
Cop.

Report of Inspection of the Accounts of the Reliance Assurance Company, Limited, for the calender year from 1923 to 1935 undertaken in accordance with the Government Order No.D.4339-40/J.S.36-34-11 dated the 12/13th January 1937.

I N T R O D U C T I O N.

1. The Reliance Assurance Company, Limited, was registered in this State on the 4th June 1923 under the Mysore Companies Regulation VIII, of 1917 and in 1933 in British India, under the Indian Assurance Act of 1912." (It commenced with the Regular Life Assurance business, which, within 5 years after its commencement, suffered from lack of business which could not be had owing to the adverse economic condition and keen competition of other Insurance Companies combined with tightness of money market". It started therefore in addition the Mutual Benefit Scheme on 30-7-1930 and the Industrial Assurance Scheme in 1933. The last scheme did not prove encouraging as, according to letter No.T.439 dated 9-12-1935 of the Managing Agents, they were "not able to do any good business since the tables are not attractive", there being only 7 policies in force with assured sum of Rs.1,481-1-0 only and it was stopped in 1935, the assets and liabilities thereof being transferred to Regular Life Assurance Business under the advice of the Company's Actuary contained in his letter No.T.1500 dated 11-12-1935. The Mutual Benefit Scheme also stopped to take new entrants from 1-3-1933.

Certain alteranative Schemes were approved in December 1934 by the Board of Directors with a view to grant, at their discretion, to the members under the Mutual Benefit Scheme conversio of their certificates to Policies under the Regular Life Insurance Business", though notices to members were not issued till 18-5-1935.

Since these schemes did not prove attractive, one more Life Insurance Scheme was introduced from 1st August 1936 fixing the premium at Re.1/- only per month for conversion of certificates into Life Policies. -----: :-----

The Regular Life businesses were based on Acturial Tables whe the Mutual Benefit Scheme was started against the Acturial advi

MUTUAL BENEFIT SCHEME. .I

Commencement of the Scheme in spite of Acturial Advice.

Para. 2. a) The Mutual Benefit Scheme came into operation on 30th July 1930 and was started to keep the Company going as the Regular Life Insurance Business suffered from lack of business. Before commencing the scheme, the Managing Agents consulted the Company's Actuary, Mr. Madhava, M.A., A.I.A., etc., who discouraged it in his letter dated 31st March 1930 stating that "there is some difficulty in clearly comprehending your paras IX and X but under any interpretation, a scheme of dividing assurance will not be acceptable to an orthodox Actuary. ... I will therefore find it hard to recommend it to you for utilisation". The Agents took not further action in the matter in explaining to the Actuary what they understood from the paras and enquiring what changes should be made therein to bring out their ideas clearly and what his difficulties were. They did not also enquire as to what changes he would suggest in the rules to bring the scheme to his acceptance. As men dealing with funds from public, it was the duty of the Agents to have done this and the paras IX and X, referred to by the Actuary are very material in settlement of claims.

The Acturial advice could not but be unfavourable since the business of dividing assurance in the words of Actuary of Government of India "is not only unsound but is apt to lend itself to the practice of fraud on the part of the policy holders and agents and latter by the Company. Before the Act of 1912 was passed there were numerous Companies which transacted Life Assurance Business, on the dividing

also.
plan and most of them came to grief. Of such companies which were in existence at the time of passing the Act. the majority have disappeared and some have stopped issuing policies on the dividing plan. A few new companies have taken up this dividing insurance business and it will not be long before they realise this mistake". (The Indian Insurance Book 1931).

When the Managing Agents were thinking of stopping the Scheme in 1933, the Company's Actuary, Mr. Marathey, M.A., A.I.A., appointed in December 1931 and continuing now) opined in his letter dated 9-2-1933 that the "Scheme is not sound".

before them the experience of such unsound schemes lending themselves to fraud and coming to grief and of the clearly expressed adverse opinion of the Company's Actuary Mr. Madhava and without getting doubts cleared in the Rules, the scheme was launched out to the public.

b) The starting of the scheme was reported to the Registrar of Joint Stock Companies in this state in letter No.68 dated 25-7-1930 of the Managing Agents and neither the permission to start the scheme was asked for nor was it given by him as he has no power under the Regulations" as explained by him in his letter No. Nil dated 28-6-1935 to Government (in the Development Department).

SPECIAL FEATURES OF THE SCHEME

3. a) The special features of the scheme, as contained in brief in its prospectus, are:-

i. no restriction of sex, caste, or creed
ii. no medical examinati
iii. a benefit up to a maximum of Rs.1,000/-
iv. a minimum - 50% over and above the calls paid guaranteed.
v. permanent disability benefit
vi. certificate not invalid even through suicide

vii. claim settled after 10 years' on maturity or at death if earlier.

b) The following gives in brief the other salient features the Scheme.

The Age of the person shall be between 18 and 60 to be eligible for membership and his application for membership should be accompained by a remittance of Rs.5-8-0 to cover the expenses incidental to the issue of the certificate.

ii. No person can hold more than one certificate in his own name under the Scheme.

iii. When a member has not lived for complete 6 months (i.e., 183 clear days) from the date of the issue of the certificate, his nominees will not be entitled to any claim and the amount paid to the deceased will be forfeited to the Company.

Each member should pay at the close of every calender year to the Company, a sum of Re.1/- only to cover the postal and other miscellaneous charges and continue to pay as above until the final settlement of his claim.

He should also pay a sum of Re.1/- as his quota towards helping the retired members or the nominees of the deceased within a prescribed time of the intimation of the death or retirement of a member and not more than one call will be made on each member in any one month irrespective of the number of deaths or retirements that might take place during the month.

vi. The member forfeits his rights under the Scheme, if he fails to pay his annual fee and the call amount within a prescribed time but after paying certain penalties and showing reasonable cause for default, his rights may be restored and he may be reinstated as a member. No claims of such members will however be valid within six months after such reinstatement.

STOPPAGE OF THE SCHEME.

4. a) In view of the special features of the scheme as explained above, and vide advertisement, it became popular with the public and the certificate holders rose from 1,071 in 1930 to 25,570 up to 1-3-33 on which date the scheme was stopped and new entrants ceased to be taken. The reasons as to why the scheme was stopped were called for by the Registrar of the Joint Stock Companies, in the State in his letter Dated 11-8-1933 and were stated to be, in the letter No.T.263 dated 25/26th August 1933 of the Company to the Registrar.

a) The stoppage of such business by some good Companies,

b the frauds discovered in the actual working of the Scheme by the Company itself,

c) the adverse note of the Actuary of the Government of India and of the Company.

There was nothing new which the Agents discovered. Even before the commencement of the scheme, as explained by the Actuary to the Government of India, in the Indian Life Assurance Book, for 1931, there were not wanting instances of such schemes which were unsound and had come to grief either through fraud or through some other cause. The Company's Actuary had also clearly advised against the commencement of the scheme itself.

b) The Scheme could have been stopped a year earlier, i.e., ea[illegible] Even as early as October 1931. i.e., about a year after the commencement of the scheme, the managing Agents consulted the Company's Actuary regarding the modification of the scheme as it was considered unscientific and unsound. The Actuary drew up a modified scheme the special features of which are

a) Extra loading based on the age of the entrants.

b) Proof of age of entrants when they are more than 35 years of age.

(c) Refund of calls received from members within 9 months before but 6 months after death.

(d) Acturial valuation of liabilities.

(e) The maximum payable to be limited to Rs. 500

The Directors in their Sixth Annual Report dated 17-12-1931 for the period ending 31st December 1930, placed before the shareholders stated that the Mutual Benefit Scheme modified as above by the Company's Actuary would "come into force early next year" i.e., 1932.

The modified Scheme did not however come into operation and the old scheme admitted as unsound was continued for a year more.

COMBINATION OF THE RESULTS OF TWO DISSIMILAR SCHEMES IN ONE BALANCE SHEET.

Separate Revenue Accounts have been prepared for the Life Assurance Business and the Mutual Benefit Scheme but only one Balance Sheet is prepared during each of the calender years from 1930 to 1932. Except in a few cases, the Balance sheet does not indicate the Sections to which the several Assets and liabilities relate, and the members of the Scheme to whom the Balance Sheets are sent cannot therefore understand its financial position. From 1933 onwards when there was a change of Auditors, separate Balance Sheet have been found prepared.

TRANSFER OF SURPLUSES TO THE LIFE INSURANCE BUSINESS AND ITS INAPPROPRIATENESS.

The transactions of the Mutual Benefit Scheme for the calender years 1930 and 1931, resulted in a net in-come of Rs.15,090-2-11 in excess of expenditure. This amount has been transferred to the Life Insurance Business (a) to wipe off the unadjusted preliminary expenses (Rs.2,949-0-0), Brokerage (Rs.302/-) and the deficit (Rs.6,740-15-0/-) in the working of the Life business up to the end of the calender year 1929 and (b) to increase the Life Insurance Fund by the Balance of Rs.5,098-3-11. Such a transfer is inappropriate for the following reasons:-

a) As the scheme is considered unscientific and unsound and as similar concerns have been reported by the Government of India Actuary to have come to grief, the transfer is undesirable as the financial position of the Scheme may thereby be weakened.

b) A certain minimum (i.e., 50% over and above the call actually received) has been guaranteed to the certificate holders and there is

no acturial valuation of the Liabilities of the Scheme. In its absence, it is not possible to say whether the net assets are sufficient to cover the Liabilities.

Only the excess of the Assets over the Liabilities after Acturial valuation can be considered to be the profit, available for appropriation.

c) The two Schemes are dissimilar. One i.e., Regular Life Insurance Business is highly scientific and sound and the other i.e., Mutual Benefit Scheme declared unsound.

d) The Surplus is not a real Surplus in the circumstances explained in para below.

e) The surplus would have been useful to meet the expenditure which could not have been met out of the Annual fees, the appropriation of calls according to the Rules of the scheme, etc. In fact such a state arose from 1934 onwards as explained in paras below.

The transfer of Rs.15,090-2-11 enabled the Life Insurance Business to acquire in 1932 3½% Government of India Bonds of the Face value of Rs.25,000/-, (purchased at a cost of Rs.13,265-10-0 paid out of the funds of the Mutual Benefit Scheme in 1931) which the company had to deposit with the Comptroller of currency according to rule 4 of the Indian Assurance Act of 1912, since the Business came under the operations of the Act in 1933.

CALLS AND DEATHS CLAIMS.

Existing rules regarding the disposal of call moneys received.

7. a) Rule 8 of the Prospectus defines the amount of call money which should be sent by the members to the Company and the

period within which it should be sent, so that it may be available for distribution. Rule 9, deals with the appropriation of the call money for distribution, Reserve etc. Rule 11 (B) explains as to what should be done with the moneys received after the period of distribution. What members may be considered to have defaulted and the remidies to revive their membership are dealt with in Rules 14 and 14 (a).

According to Rule 8, "if a member is reported to have died or retired, all other members will be duly informed by ordinary post of such death on receipt of which information every member shall remit within a period of one month from that date, a sum of Re. 1/- only to the Company as their quota towards helping the retired members or the nominees of the deceased".

This notice of death was dispensed with in regard to calls for deaths reported in January 1932 and the subsequent months and the members were asked to remit regularly the monthly call of Re.1/- on the last day of every month, the reasons for doing away with the sending of notice individually being stated to be chiefly:-

a) Occurence of death among members invariably every month and

b) avoidance of complaints from members of non-receipt of notices.

This change in the rule is found to have been intimated to members in December 31st call notices, in addition to the issue of circulars and notices in the news papers. It is also found in-corporated in the September 1932 edition of the prospectus.

WRONG APPLICATION OF THE RULES.

b) Regarding collections, it is clear from the Rule (8) that the sums received within one month only from the date of notice are available for distribution; but this was not followed by the Agents. What they did was they took for the purpose of distribution among the nominees of the deceased whose death reports were received in any month the amounts received within the next two months, whereas they should have

taken only the amounts received within the next month from the date of notice. For instance for distribution among nominees of the deceased members whose death reports were received in August 1931, the remittances received in October and November 1931 were taken into account. The Agents relied on Rule 14 for their action. According to this rule "any member who fails to remit the call or the annual fees as per rules within two months from the date of issue will forfeit his rights as member and his name will be removed from the Register of members".

This rule merely allows an extra month as grace time to the member for keeping the certificate alive, but does not in any way even by a hint allow the interpretation put up by the Agents. This point has also been missed by the auditor. The rule is clear and now the agents could take two months' collections for distribution is inexplicable unless it be with the view of declaring larger claim thereby rendering the scheme attractive and popular to the public.

That only one month's collection should be taken will be clear from the following extract from the letter dated 9th February 1933 of the Company's Actuary.

You asked me the question whether the distribution of claims under your rule 9 should be made at the end of one month or at the end of two months, which is the time allowed for keeping the certificate in force under your Rule 14. In my opinion it is necessary under your Rule No.11 b, that any amount received after the date of distribution is not to be included in any other distribution and so it is not permissable to wait for two months from the date of notice in order to include the member in the distribution. You may therefore exclude from distribution the calls received after one month from the date of issue".

RESULTS OF WRONG APPLICATION OF THE RULE.

c) The procedure of taking two month's collection for distribution resulted in the overpayments of death claims and the consequent reduced contribution to the Reserve Fund to which, according to Rule 11 (b). "The moneys received towards the call after the period of distribution" (i.e. one month) "should be appropriated".

ii) If the early periods of the scheme from May 1931 to April 1932, the deaths had been few and it was possible to declare Rs.1,000/- to each nominee adopting for distribution the basis of two month's Collections which was contrary to Rules. From May 1932 to end of October 1932, the deaths had increased and even on the above basis could not be distributed, the claims distributed having fallen to Rs.395-0-0. for October 1932. The distribution of the sum of Rs.1,000/- to each nominee continuously at the commencement of the scheme for a year by a wrong application of the Rule created a misleading impression in the minds of the public, that others also would get the same amount.

It is a strange coincidence that the Managing Agents should have felt doubts in the application of Rule 8 and consulted the Company's Actuary in the matter so late as February 1933 (i.e., about 2½ years after the commencement of the operation of the scheme) which happened to be just the time when the distribution of large amounts had become impossible. That the Agents who were mainly instrumental in drawing up the rules should have had no clear understanding thereof is inexplicable. That they failed to consult (as they did later) the Actuary in the early stages before distribution of claims to nominees is a blunder. This delay on the part of the Agents has resulted in unfair distribution of the benefits of the scheme, viz., overpayments of claims on the one hand and reduced contribution to the Reserve

Reserve Fund, weakening its financial position on the other hand. These death claims have been passed in the several meetings of the Board of Directors. Overpayments require to be recovered unless it is shown satisfactorily that there were reasonable grounds for the interpretation put up by the Managing Agents.

) The certificate holders in force to contribute their quota to August 1932 call were 5,476, whose accounts are contained in 11 ledgers of 500 pages each. The amount received after one month but within two months in the case of the above call was worked out in the case of 980 certifica holders contained in 2 ledgers and aggregated to Rs.257/-. To get at the correct amount, it has to be worked out from the remaining 9 ledgers As it is, this sum of Rs.257/- has been utilised for distribution of claim contrary to Rule 8 and has contributed Rs.51/- in excess to each nominee. Whereas the entire amount of Rs.257/- should have been appropriated to the Reserve Fund after allowing a small percentage for commission expences

This method of utilising two months' remittences has been followed up to the payment of claims on account of deaths reported in October 1932. In the payment of subsequent death claims, one month's receipt only is taken into account. The amount distributed up to end of October 1932 works out to Rs.1,02,742-8-0 and to find out how much has been paid in excess at the expense of the Reserve Fund has to be worked out from about 45 Ledgers of 490 folios each How this also affects the Net Revenue is not possible to say without the above information.

A list is appended showing the month of report of death, the number of deaths reported and the amounts distributed in each case. The fall in the distributed amounts from November 1932 onwards is due to:-

a) taking one month's receipt only for distribution.

b) increase in reported cases of death and

c) reduction in the receipt of call money on account of forfeiture and cessation of taking new entrants to the scheme.

CASE OF CERTIFICATE HOLDER NO.1677.

e) He became a certificate holder on 4-3-1931, was admitted to the Union Mission Tuber Culosis Hospital on 19-4-1931 and died on 15-10-1931 living some days beyond the minimum required to be entitled to the benefits of the Scheme.

The intimation of death was sent to the company on 19-10-1931 (and received in the office on 22-10-1931) by one Mr. Murgappa Chetty for the nominee, the mother of the deceased, who was illiterate. This intimation was not accepted by the Agents who required the intimation to be sent by the nominee herself she being a major. The nominee's intimation was received in the office on 7-11-1931 and the case was included in the month of November instead of in October in which month the intimation of death was sent by Mr. Murgappa Chetty. By this, the nominee got Rs.1,000/- whereas her share would have been Rs.708-0-11 only if her case had been included in October. Another effect of the inclusion in October 1931, claims would be a break in the continuity of payment of Rs.1,000/-. There is no rule requiring the nominee to send the information of death as, according to Rule 15, "intimation of death of a member must reach the head office within 45 days of the death of occurance". Though according to rule 16, to draw the money, "the nominee should submit to the Head Office proof of death". Another noticeable point in this case is this. The member has to sign a declaration of good health at the time of submitting his application for member-ship. Unless in the present case it is known that the member all of a sudden began to develpp, Tuberculosis within one and half months after he became a member, he cannot be considered to have signed the

declaration in goodfaith and his claim becomes invalied. The correspondence does notoshow that this question was raised then the case came up for settlement of claims.

to

RESERVE FUND AND DISTRIBUTION OF SURPLUS.

Existing Rules.

8. a) The amount of calls which should be transferred to the Reserve Fund is defined in Rules 9 and 11 B of the Prospectus. Rule 9 lays down that each time the total collected amount will be distributed equally to all the death claims but 20% in the case of each death claim will be appropriated towards the Reserve Fund and Management expenses and the balance after such deductions will be paid to claimants" and according to Rule 11 B, "any amount received towards a call after the period of distribution will be appropriated towards the Reserve Fund".

Wrong utilisation towards expenses of the Surplus left over out of the calls received prior to the period of distribution.

b) Rule 9 gives a wrong method for arriving at the amount available for payment to each nominee out of the calls received prior to the period of distribution. This amount arrived at after allowing 20% towards Reserve and Expenses may be either:-

i. less than the minimum guaranteed amount or

less than Rs.1,000/- but more than the guaranteed minimum

more than Rs.1.000/-

In case i), the deficiency to make up the guaranteed amount be met from the Reserve. In case ii), the amount will paid away. In case iii), Rs.1,000/- only will be paid, and ny amount left over after distribution of this maximum not eing available for distribution should not be utilised towards

expenses as upto 20% of the entire call amount has already been made available for this purpose (and this persentage only should be made use of as per the prospectus of the Mutual Benefit Scheme) but should be transferred to the Reserve Fund on the analogy of the principle contained in Rule 11 B according to which the amount of call not available for distribution should be transferred to Reserve Fund. This has not been done. For instance in the calender year 1931 the death calls received up to date of distribution amounted to Rs.23.401/-. Out of this amount 15% i.e. Rs.3.510-8-0 was appropriated towards Reserve, 5% i.e. Rs.1.169-11-0 towards expenses and balance 80% i.e., Rs.18.920-13-0 towards distribution among the nominees. Against this sum a sum of Rs.13.000/- was distributed among the nominees and the balance of Rs.5.920-13-0 not available for distribution should have been transferred to Reserve Fund. This has not been done with the result that the Reserve Fund is stated less and the surplus income stated more to the above extent in the published printed Revenue Account for 193 . They should be respectively Rs.25,982-9-0 and Rs.8,855-3-4 and not Rs.20,061-12-0 and Rs.14,776-0-4 according to published accounts. The effect of transfer of Rs.14,776-0-4 to the Life Insurance business as explained in para 6 above is in effect on appropriation of a portion of the Reserve Fund of the Mutual Benefit Scheme which is contrary to Rule 11. A, according to which the Fund should be appropriated towards the Mutual Benefit Scheme only.

In the calender year 1932 also, the amount left over after payment of the Maximum amount of Rs.1,000/- to each nominee on account of deaths reported from January 1932 to end of April 1932 will be * Rs.2,665/- (as explained below) which has not been transferred to the Reserve Fund. The Reserve Fund for 1932 and the surplus of income at the end of the year should really be Rs.38,942-6/- and Rs.5,223-3-0 and not Rs.36,277-6-0 and Rs.7,887-3-0 respectively as published in the printed Revenue accounts of the scheme. This

This sum of Rs.7,887-3-3 has been appropriated towards payment of (a) dividend (Rs.2148/-) at 12% to the share holder, and (b) Bonus (Rs.3,875/-) to staff, the balance of Rs.1,863-14-3 towards the creation of Dividend Equilisation Fund. The Bonus of Rs.3,875/ includes a special payment of Rs.3.000/- to the accountant (who is now the Secretary) of the Company, for his "arduous work from the inception of the scheme".

These payments would not be possible with the correct surplus of Rs.5,223-3-0 and there would be no money available for dividend equilisation fund.

From May 1932 onwards during 1932 and in subsequent years, nothing was left after distribution of death claims out of the amount appropriated towards distribution from Death Calls. The death claims to be paid individually had fallen far below Rs.1,000/-.

Month.	Amount of calls collected for distribution.	20% thereof for Reserve & expenses.	80% for distribution.	No. of deaths admitted.	Portion available for each nominee	Amount that should be & was distributed to each nominee.	Total amount distributed.	Amount left over after payment of Rs.1,000/- to each nominee
	Col.1	Col.2.						
	Rs.	Rs.	Rs.		Rs. (Ronnd)	Rs.	Rs.	Rs.
Jan. 32.	5,821	1.164	4.657					
Feb. 32.	10,245	2,049	8,196	8	1,024	1,000	8,000	196
March 32	10,688	2,137	8,551	7	1,221	1.000	7,000	1,551
April 32.	11.576	2.315	9,261	9	1,029	1,000	9,000	261
			30,665	24			28,000	2.665

Inadequate provision to Reserve Fund out of the calls received after the period of distribution.

c) According to Rule 11 B, the call amounts received after the period of distribution should be transferred to the Reserve Fund. In 1931 and 1932, this rule has been followed and deducting 5% of the amount received towards payment of commission charges to Agents for the collection of call amounts, the balance has been transferred to the Reserve Fund. It is to be noted however, that 5% is not payable in all cases, but 4% is payable in some cases and 5% in one case only. In 1933, this rule has not been followed and instead of deducting only the commission payable for collection of calls, a far higher percentage viz-. 20% has been deducted appropriating towards expenses.

Out of Rs.1,54,140/- shown in the Revenue account for the calender year 1933 under "monthly calls", the sum of Rs.53.779/- represents the amount of calls received after the period of distribution. The amount transferred to the Reserve Fund out of this latter amount is Rs.43,023-4-0 (i.e., Rs.53,779/- less 20% instead of Rs.51.090 (i.e., Rs.53.779/- less 5%) with the result that in the Revenue account the Reserve Fund is shown less and the excess of income over expenditure is shown more by Rs.8,067/-. Deduction of the percentage of 20 was not at all necessary since even with the usual deduction of 5% for expenses as in the previous years, there would be still left a small surplus of Rs.1,093/- after meeting expenditure of the year. But with this small surplus, it would not have been possible to declare, as has been done, dividend at 6% (Rs.1.074/-). Bonus (Rs.982½/-) and provisions for Dividend Equilisation Fund (Rs.1,103-9-8/-) and Working Fund (Rs.6,000/-). The inference that the higher percentage was adopted with the above object is inevitable.

d) The calculation of the amount to be transferred to the Reserve Fund by the deduction of 20% towards expenses is approved by Directors, in their meeting held on 6-5-1934 (consisting of the two Managing Agents and one other Director). The changed procedure being contrary to the Rule contained in the published prospectus should have been noticed in the Director's Report, accompanying the accounts of the year so that the members of the scheme to whom the Reports are stated to be sent may be aware of the change in the published Rule. If at least calls had been shown analysed in the Revenue accounts as in 1931, that would go some way to help the members to understand the change.

In 1934 and 1935, whatever was left over out of the Income after meeting the expenditure of the year but without providing for the Reserve Fund has been transferred to the Reserve Fund and the amounts so transferred fall short of the Reserve calculated according to the Rules and explained below. * The amount by which the Reserve Fund fall short has been used towards expenditure and this position could have been avoided and full provision for the Reserve Fund made if the surplus Income formed up to the end of 1931 had been retained in the scheme itself without transferring it to the regular Life Insurance Business, as explained in para 6 above, so that it may have been available in such emergencies

The basis on which the provision for the Reserve Fund is to be calculated is defined in the prospectus of the scheme with a view to ensure its financial stability which cannot be secured by non-observance of the Rules and distribution of surpluses without taking account of future possibilities.

Year.	Amount received after period of distribution.	5% towards Commission.	Balance to be appropriated to reserve Fund as per Rule 11(B).	Provision made actually in account.	Short provision which is evidently used towards expenses.
1934	27,525	1376½	26;148½	22;676-9-1	3,471-14-11
1935	20;929	1046½	19;882½	12;643-14-10	7,288-9-2
					10,710- 8- 1

Amount of surplus transferred to Life Insurance Business in 1932 - 5,090-2-11 which is more than sufficient to meet the expenses of - s.10,710-8-1. Unlike in the years 1932 to 1933, no amount is transferred to Reserve Fund out of the calls received prior to the period of distribution of claims.

f) Incorrect surplus shown in the Balance Sheet and its appropriati

i) When Dividend was declared for the year 1933. (i.e., the year in which the Company came under the operation of the Indian Insurance Act of 1912), the Actuary to the Government of India asked for the justification of this declaration before the valuation was made and suggested the valuation of the Mutual Benefit Scheme also. He was replied that the Mutual Benefit Scheme is not Governed by the India Insurance Act of 1912 as per his letter No. 76/1 (5) dated 30th April 1930 and dividend has been paid from out of the profits of the Mutual Benefit Scheme, meaning thereby the surplus of income over expenditure. He did not press the matter presumably because the scheme did not come under the above act. Since there is a certain minimum amount guaranteed to the certificate holders the prudential course was to ascertain the

the surplus left over after the valuation of liabilities and to use this surplus for distribution. This has not been done. The surpluses of income left after meeting the expenditure have been distributed in 1932-33 as dividend, bonus etc. But these surpluses are not correctly worked out as per the rules of the scheme as pointed out in paras 8 C and above and * the following list giving the surpluses published in the revenue accounts, the appropriation of such surpluses and the revised surpluses shows that what the revised figure of surplus the appropriation suggested by the Directors and ~~and~~ approved by the General Body, is not possible. As the ~~object of utalisation was mainly to declare dividend (and~~ incidentally bonus), since in the words of Directors in their 8th Annual Report for the year ended 31st December 1932. "The share holders have not received any dividend on their Capital ever since the Company's inception", there will be, after the declaration of dividend and Bonus. nothing left to be contributed to the Dividend equalisation fund, in the years 1932 and 33 taking the surplus to be the revised figures in column 4 and the Declaration of Dividend and Bonus in 1934-35 out of Dividend Equalisation Fund, as proposed by the Directors and approved by the General Body of shareholders, is impossible The Declaration of Dividend etc., in the above circumstances is not in order as it does not reflect the Company's true and correct position which is made to appear more prosperous that it really is.

Continued:-

	Surplus in the Published accounts.	Appropriations made.	Surplus as worked out in paras 8 (b) and 8 (c).
		Col.3.	Col.4.
1932.	7,887-3-3	i) Dividend 2,148-0-0 ii) Bonus 3,875-5-0 (to Staff) iii) Transfer to Dividend Equalisation Fund. 1,863-14-3	5,223-3-0
1933.	9,160-1-8	i) Dividend 1,074-0-0 ii) Bonus to staff, 982-12-8 iii) Amount transferred to Dividend Equalisation Fund. 1,103-9-8 iv) Working Fund. 6,000-0-0	1,093-

ii) The general Balance Sheet as at 31st December 1935 shows on the side representing "Capital and Liabilities", a deduction of Rs.771-8-0. Bonus to Staff, from the Working Fund. This working fund was found for the first time in 1932, to hold in reserve the death claims declared for payment but with-held from payment on account of receipt of some information of a fraudulent nature (like understatement of age) vitiating the claim. If the information is proved to be false, payments are made and charged to this fund. Such being the origin of the Fund formed for a specific purpose, payment of Bonus to staff out of this Fund is not in order.

Also appropriation of Rs.6,000/- out of surplus income (as worked out by the company) for 1933, to the working Fund is equally wrong, the correct head to which the credit should have gone being the Reserve Fund since the surplus was formed by wrongly taking more percentage to working expenses at the expense of Reserve Fund.

FORFEITURES.

9. a) Existing Rules.

According to Rule 14 of the prospectus, "any member who

fails to remit the call on the annual fees as per Rules within two months from the date of issue of the notice, will forfeit all his rights as member and his name will be removed from the Register of Members". The defaulter may however recover his rights and be reinstated as member on requisition for reinstatement by giving "any substantial, good of reasonable cause for non-payment" within 3 months from the due date. As this restriction proved to be a great hardship to members, the rule was modified and even after the expiry of the three months, his rights may be restored at the discretion of the Directors by showing "food cause" for lapse and on payment of annual, Death ..... calls with a fine of annas four per month" payable from the date of notice (Rule 14 (a) of the prospectus).

DRASTIC APPLICATION OF RULES TO MEMBERS AND ITS EFFECT.

A Register was found maintained up to 31-12-1935 only to record the application received from defaulting members for reinstatement complete in all respects while those received as incomplete in any respect want of reasons for non-payment; omission to enter the certificate number; non-attestation of thumb mark etc., are not entered in any Register. And when questioned as to the number of applications of the latter class pending in the office of the company, it was stated that it was not possible to say. And it is necessary to have a Register for this class also, to watch the progress of disposals. The above Register maintained for applications received with completion formation shows that out of 7423 applications recorded therein upto 30-4-1934 from commencement of operations of the schemes, only 18 have been refused reinstatement whereas out of 2216 applications recorded from 1st May 1934 to end of 31-12-1935, 603 have been refused reinstatement and these include 314 applications in which the delay in payment has not exceeded even three months. Even defaulters in the

first instance have been refused reinstatement. The forfeit were most drastic from May 1934 to end of November 1934. the refusals being 526 out of 1097 applications recorded, the percentage working out to about 48. Rule 14 (a) was introduced with a view of give greater relief to the defaulting members and is frustrated by this refusal. The members who are refused reinstatement will get nothing in return for the money they have paid to the scheme since these moneys after reserving a certain portion according to rules have been used for distribution among the claimants (and there is no provision in the scheme also for any return to be made in such cases) and the advantage of participating in such distribution is lost to them. By refusing reinstatement, the company avoids the contingent liability of paying out of the Reserve Fund to make good the deficit when the amount available for distribution out of calls received happens to fall short of the guaranteed minimum i.e. calls actually paid by the member plus 50% over and above it... and the greater and the forfeiture, the more is the prospective saving in the Reserve Fund which had been insufficiently formed by misapplication of Rules as explained in detail in the previous paras. The reinstatement is left to the discretion of the Board of Directors (and it may be noted here that meetings are found to have been usually attended by three Directors i.e. two managing Agents and one other Director) but in view of the Rule 14 (A) introduced with a special purpose and taking into consideration the loss to the Member, the Directors might have been as liberal as they were up to 30th April 1934. They were not so severe between December 1934 and December 1935 the refusals being 77 out of 1119 i.e. 7% only. The reasons stated by the defaulting members in these cases of refusal for reinstatement are "out of station" "sick for 9 months" "forgetfulness on account of worry due to daughter's marriage" "out

out on pilgrimage" etc. The reasons were not considered satisfactory by the Directors though the reasons stated in the cases where reinstatements have been allowed are more or less similar and a few instances from member's applications for reinstatement taken at random are given below. When the managing Agent Mr. Thirupathi was questioned on this point he stated that the Directors in their meeting could not have refused reinstatement without using their best discretion and moreover there were alternative schemes under the Regular Life Assurance scheme specially prepared to help such members to convert their certificates to viz. policies. But there were no such schemes when the forfeiture was severed and the defaulting members were left helpless. Under the above circumstances the reasons for severe forfeitures between May 1934 and November 1934 are difficult to understand

No. of the certificate.	Reasons stated for lapse in the capplications for rainstatement	Month in which reinstatement was granted.
14529	Sent with a boy who evidently did not remit.	April 1934.
620, 5215, 607, 6389, 5253, 25562.	Not in station.	April 1934. (A)
7677	Not seeing well.	May 1935.
391.	Family circumstances not favourable. pay not received.	February 1934.
5902, 24871.	Ignorance of Rules.	[illegible]
6681.	Had gone to granddaughter's place.	September 1935.
14318.	Had gone to parent's house.	April 1934.

In addition to those who are refused reinstatement there are cases which are not brought into any Register as already ex

The number of defaulters on 31-12-1935 was (A) 18469 as shown below who will be allowed to convert their certificates into Life Policies at the discretion of the Directors.

c) Reinstatements are being invariably refused from 1-1-1936 and conversion of the certificates of to Life Policies recommended. It was stated that in refusing reinstatements the managing Agents have been following the advise of the Actuary of the Government of India contained in his 1935 year Book, published in 1936 viz., "Most of the companies which transacted dividing insurance business realised that they could not continue this business for a long time. It is accordingly highly essential that these companies which still transact this class of business should stop it forthwith and consult actuaries with a view to converting their existing business into ordinary life assurance business on sound principles". There are 3 schemes under the Higher Life Insurance Business specially designed with the approval of the company's Actuary available not only to the members whose certificates are in force but also to defaulters in order to convert their certificates into Life Policies.

(A)

Members to whome certificates were granted up to 1-3-1933.	25,570
Deduct. Members whose deaths were reported up to 31-12-1935. 1629.	
Deduct. Members whose Members in force on 31-12-1935, as per the entry in the printed report. 5472.	
Total.	7,101
Members who have defaulted.	18,469

The number of defaulters as on 31-12-1936 and the number of certificates in force were stated not to have been yet worked out.

Default due to the receipt of Money by an unauthorised Sub-Agent and his failure to remit the money in time.

The holders of certificate numbers, 24,473 and 23,945 were considered by the managing Agents as defaulters since they did not remit to the Head Office their annual fees for December 1932 in time i.e., not later than 28-2-1933. The Certificate holders stated that they were paying their calls and annual fees in time to the local agent of the company (i.e., at Madras) and they paid their annual fees also to him as usual in time and if there was delay, he should be held responsible. The managing Agents did not agree to this view as the Local Agent was not authorised to receive money behalf of the Company.

Correspondence shows that the Local agent was a Sub-Agent of Messrs. Nilkantan & Co., the chief Agents, and he remitted the amount late on 8-4-1933. The following reply of the chief Agents to their sub-agent, explains the position clearly. For an unauthorised action and delay of the sub-agent the members had to suffer and these may not be the solitary instances.

Dear Sir,

We are in receipt of your letter of the 6th instant and noted the contents. Your Money Order for Rs.6-8-0 was received here only on 8-4-1933. As a special case for this time we shall see our best way to adjust Rs.4/- out of our items at credit with Head Office before 28-2-1933, and arrange the C.No's.24,473 and 23,945 do not become defaulters ... In future arrange to remit calls regularly to the Head Office direct".

(Copy of Post Card No.GYC.AY5241/32 dated 12-4-1933 written by Messrs, Nelkantan & Co., to his sub-agent Mr. S. Narasimhan, Hindustani Publicity Bureau, 52, Audiappa Naikan Street, George Town, Madras).

FORFEITURES ON ACCOUNT OF FRAUD BY NOMINEES OR MEMBERS.

c). A review of some death claims showed that nominees of the deceased members forfeited the benefits of the scheme on some such ground as the following.

i) Age of the member at entrance proved to be more than 60 years of age.

ii) False declaration of the state of health at the time of entrance.

iii) Date of death reported wrongly

iv) False report of death of member still living.

v) Production of report of death of a person who has no existence though a certificate has been obtained.

In many cases frauds were discovered through enquires made by the Managing Agents on receipt of an ananymous Report.

A few instances of (iii), (iv) and (v) are given below:

Certificate No.	Date of Membership.	Date of death as per nominees report & copy of the extract of the Registrar of births & deaths.	Amount of death claim
			Rs. a. p.
8152	31-10-1931	20-8-1932	345 4 0
14,50	4-12-1932	9-10-1932	273-3- 0

After the death claims were paid in the above instances relying on the copy of the extracts, anaymous letters were received in the office of the Company that the reported dates of death were wrong and they have been purposely post dated with a view to see that the interval between the dates of death

and membership is not less than 100 days so that the claims may be valid. On enquiry the reported dates were found to be wrong. In both the cases the money paid was recovered. In the case of 8152. criminal complaint was filed and after money was recovered compromise was asked for by the company and granted by the court.

Case No.21341.

In the above case, the member was not dead but a death report that the member died on 22-3-1933. was sent by the nominee. It was stated that he sent a duly certified copy of the death therein to the 22nd March 1933. This copy was not abailable and was stated to be in the Court. On the authority of the latter document, the amount of death claim viz.. Rs.171-4-0 was paid. It turned out later on that the member was not dead and the reported date of death was false. Complaint was filed in the court of I Class Special Magistrate at Shimoga. After obtaining a sum of Rs.294-4-0, including costs, the company asked the court for permission to compromise. The final orders of the Magistrate are

Case No.2205. (Mrs. Kaveramma)

Month of entry into the scheme.	December 1932.
Reported date of death by the nomine and according to copy of the extrac of Register of births and deaths.	31-3-1933.
Amount of claim disbursed after disbursement of the amount of claim, on ananymous, letter was received.	204-1-0

After disbursement of the amount of claim, on ananymous, letter was received in the office of the company that there was no such person as Kaveramma who appears as the holder of the certificate No.22005. and that there could not be therefore any

rigourous imprisonment. The money paid could not be recovered. This case shows that the local agent who introduced the case for issue of certificate was not careful.

Two petitions received by the Registrar of Joint Stock Companies considered.

e) a) Certificate No.18546.

Date of membership. 30-4-1932.
Reported date of death. 31-5-1935.

A complaint was found to have been received from the nomine on 15-1-1936 stating that the company is refusing payment of the death claim due to her as nominee. The papers show that there was a default and member was reinstated on 4-4-1933. Payments were regularly till the July 34 call which should have been received before the 1st of October 1934. Money was received however on 5-10-1934. The party was held to have defaulted in accordance with Rule 14. Moneys were also received regularly subsequent to the above payment and all these amounts were kept under suspense as no requisition for reinstatement was received. A letter was received on 26-2-1935 from the certificate holder that he was "sick in Madras from 6 months. So I am unable to send the money fixed date. Therefore I request your honour to be excuse delay of paying in fixed time for which act of kindness I shall thankful etc.,". This was not considered by the Managing gents to a sufficient requisition for reinstatement and on letter o.1545 of 7-3-1935, the member was asked "to send a separate etter duly signed by you as is done in your proposal showing substantial good or reasonables caused for the nonpayment of your alls within time etc".

The party died on 31-5-1935 and in the notice by the nominee's awyer dated 5-9-1935, it is stated that "the client says that he has paid the call amount for the month of July 1934 on 31-7-1934

the office of the company has asked for the production of the receipt issued for the payment of the money,. No reply was stated to have been received so far. The cash Book and Bank Book do not show the receipt of the remittance. If the payment on 31-7-1934 is proved, then the nominee has a claim.

b) Another petition dated 25-7-1933 found in the file of the office of Registrar of Joint Stock Companies, is that of one Mr. Chowdayya, Record Keeper Davanagere, Chitaldroog District. Mr. Chowdayya filed a complaint against the Company in the Court of the First Munisiff, Davangere and a copy of the Judgement was stated to have been applied for by the Company. The Company's Lawyer in his letter dated 19-3-1937 to the Managing Agent stated that the copy may be expected shortly.

10. COMMISSION ACCOUNT:

i) According to Rule 2 of the prospectus, the applicant to membership in the Mutual Benefit Scheme is required to send Rs.5-8-0 only with his proposal to cover the expenses incidental to the issue of the certificate. This amount was utilised:-

a) to pay to the managing agents a commission of Re.1/- on each of the applications resulting in the issue of certificate as per Resolution dated 4-11-1930;

b) to pay the other agents (including the sub etc., agents), according to the terms of the contract, commission charges varying from Rs.2-8-0 to Rs.2-12-0 on each of the approved applications canvassed by them.

The balance towards other expenses.

The numbers of certificates issued was 25570. The commission received by the Managing Agents was Rs.25,570/- and that received by the other agents including the sub-agents etc

was Rs.64,877 and odd. Regarding the monthly calls and Annual fees, the agents get a commission varying from 4 to 5% according to the terms of the contract in the monthly calls received from members canvassed by them. The Managing Agent do not get any commission on these call amounts but get a commission of 25% on the annual fees as per Resolution dated 4-11-1930 and the commission so received by them works out to Rs.12,370-4-0

The total commission received by the Managing Agents from 31-7-1930 the date of commencement of the scheme till the end of the calender year 1935 was Rs.37,940-4-0. (in addition to their monthly allowances as managing Agents aggregating to Rs.24,900/- during the above period).

Call moneys etc., are received from defaulting members till their question of reinstatement is decided and it is seen that annual fees at Re.1/- per year are deducted from these amounts and the managing Agents claim commission at 25% on these annual fees whether the defaulters are reinstated or not. According to Rule 7, annual fees are to be collected from members only and the commission is due only on the annual fees and as commission is not payable to the managing agents in the case of amounts collected towards expenses from defaulters who are not reinstated, its payment to them is not in order.

Messrs. Nilkantan and Company.

Commission claim in dispute.

Messrs. Nilkantan & Co.,, were appointed from 1-4-1931 by the Reliance Assurance Company Limited as their General Chief Agents, for the whole Mutual Benefit Scheme to solicit Membership applications for the Reliance Mutual Benefit Scheme, to collect and pay over such fees and moneys as they shall be directed

ted to do in connection with the business of the Company.

A copy of the agreement entered into between the company and the firm of Messrs. Nilkentan and Company, is enclosed to this report and most relevant paras of the agreement relating to the calculation of volume of Business done by and the commission due to them are given below.

Para 33:- Unless previously terminated in terms hereof this contract shall hold for five years only

Para 31:- The company shall however have the right to cancel and terminate this agreement.

(a) on the change of dissolution of the firm of Messrs. Nilkantan & Co.,

(b) on the break by the said General Chief Agents or their sub-agents of any of the provisions of this agreement.

(c) if the General Chief Agents are punished for any criminal offence in a court of law,

(d) if the General Chief Agents fail to pay to the company on demand any amount due from them and to immediately payable by them.

31. (b) A cash security of Rupees Two Thousand is to be paid by the General Chief Agents, or a portion of their bills to be deducted every month till such time when the required sum of Rs.2,000/- is collected.

9. The company agrees to pay and the Firm agrees to accept as full compensation for their services of every kind the remuneration upon such certificates as shall have been canvassed by the General Chief Agents and issued by the Reliance Assurance Company, Ltd., during the continuance of this agreement. Such remuneration, commission and allowances shall be determined and payable according to the schedule hereto.

13. The entire business from the sub-agents under them and accepted by the Reliance Assurance Company Limited will count towards the business in determining the total business placed by them in a year.

SCHEDULE OF REMUNERATION.

(1) The General Chief Agents guarantee to complete on Lakh of Members within five years from this date at the rate of - Twenty Thousand Members every year

(2) Against due discharge of their duties as General Chief Agents and fulfilement of guarantee mentioned above they will be remunerated as per terms and conditions noted hereunder:-

a) A consolidated commission at Rupees Three (Rs.3/-) per certificate will be paid.

b) Five percent on the call amounts received.

(3) The above include all remuneration of their sub-agents.

(4) Regular and standing advertisements to be published in all the languages of India and in leading news-papers at the choice of Managing Agents at the cost of the General Chief Agents. Appeals and leaflets issued on special occasions shall come under Advertisement charges.

(5) If the guaranteed cases of One Lakh of Members at the rate of Twenty Thousand members every year for Five years is not completed the avove rate of commission will not be paid, but only a reduced rate @ Rs.2-12-0 per case and the remaining amount of commission, if any, will be paid on the completion of guaranteed business on One Lakh of members. The Agents will, however be allowed to draw at the end of Second year from the commencement of this agreement, the balance commission of annas four per case over and above Rs.2/12/- per case on the business already done provided

the business does not fall short of Thirty Five Thousand cases by the end of the said period of Two years. From the third year again, they will get Rs.2/12/- per case on further business and the balance will be paid only on completion of balance of guaranteed business. If the total business falls short of one Lakh in five years the excess amount of commission of four annas per case drawn over and above Rs.2/12/- per case shall be refunded.

The Mutual Benefit Scheme was stopped from 1-3-1933 and when this was intimated to Messrs. Nilkantan & Co., by the Managing Agents in their circular notice and also in their letter No.4985 dated 23rd March 1933, (copy attached) th Firm of agents wrote in their letter No. dated as follows:-

"We are surprised at the sudden decision of yours and we submit that this decision cannot affect our rights under the agreement. We are thereforeconstrained tostate that if you have finally determined tostop business under the Mutual Benefit Scheme you will be liable to make good to us the loss we sustain on account of your terminating the Agency before the period fixed under the agreement which please note". They further wrote in their letter No.G.C.A.5212/32 dated 7th April 1933 and follows:-

"Since you have finally decided and finally stopped entries of the Mutual Benefit Scheme from 1st March 1933. we submit that we are prevented from functioning the agency under the agreement". In their reply No.5688 dated 13-4-1933. the Managing Agents explained the reasons necessitating the stoppage of the scheme which was declared by eminent Actuaries in and out of India to be unscientific, unsound and unworkable and therefore opposed to public policy. reputation and interests of the Company. They stated that, in these circumstances they "failed to see

how you" (i.e., the Firm) "can demand of the company any loss contingent on the stoppage of the scheme. Further your non-fulfilment of the terms of the present agreement which you have entered into with the company enable the company to terminate the contract with you". How this contention of the Managing Agents was received by the Agents is contained in the following extract of their letter:-

"The Company ought to have known whether the business they intend doing is profitable or not before they embark on the same and engage Agents therefor for any fixed period and if the Company intends to terminate the Agency created in solemn form for a fixed period before the expiry of the period fixed, it requires no clause in the agreement to say that the principals should pay compensation for unlawful termination of Agency and for breach of their contract". It is surprising that you should say that you had been doing business up to now which is opposed to public policy or that the Actuary and Registrar of the Companies permitted you to carry on a business which is opposed to public policy and reputation of the company". (*Copy of extract of letter No.GCA.5269/32 dated the 11th May 1933 from Messrs. Neelakantan & Company, to The Managing Agents, the Reliance Assurance Company, Limited, Bangalore City). The Managing Agents asked in their letter No.6360 dated 2-5-1933 to Messrs. Neelkantan & Company. not to style themselves any further as General Chief

out that the firm had agreed in their

that their contract had terminated. When this reached Messrs. Neelkantan & Company, they pointed out in their letter No.G.C.A. 5272/32 dated 26-5-1933, that the above view taken Managing Agents was not their intention and "it is not correct to you (i.e., the Managing Agents) to say that we have agreed for the termination of the contract". The Managing Agents did-

did not change their view. The immediate effect of this view was that Messrs. Neelkantan & Co., lost the benefit of 5% recurring Commission they would have had on the monthly calls remitted by the certificate holders introduced by them.

The Managing Agents and Messrs. Neelkantan & Co., consulted their legal advisers. The company's adviser opined (copy of the legal opinion enclosed) that "the agent is entitled to commission on all business secured by the company through the agent -- -- Also the question as to whether the contract according to the terms of the agreement has been performed by the agent has to be determined before further payment is made". According to this view, the commission has been worked out by the company taking into account the business introduced by the Chief Agents and as a result they are shown to be debtors to the extent of Rs.6,408-15-0 in the audited Balance Sheet as on 31-12-1933.

According to the legal advisers of Messrs. Neelkantan & Company, (copy of the letter enclosed) they are entitled "by the terms of the agreement to get their commission, renewal commission, on calls etc., on all the business effected by them and which they would have effected but for the unlawful termination of the agreement by you" (i.e., the Reliance Assurance Company.) "and they have worked out a claim in their favour for a sum of Rs.4 Lakhs. Messrs. Neelkantan & Company., have submitted in May 1936 to the Court of the District Judge, Bangalore, an application for permission to sue the Assurance Company as a pauper under Order 33, Rule 1 of the Mysore Civil Procedure Regulation. When legal views have differed and the matter is before the Court, any comment on the subject is out of place. After orders of court are passed, the question has to be taken up and recalculations of the claims made if necessary.

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Failure to take security required by the terms of the contract and payment of advances in excess claims resulting in loss to the Company.

The following gives an analysis of the transactions of messrs. Neelkantan & Company, from the commencement till the end of their connection with the Assurance Company.

(A) Advance Accounts.

Year.	Advances made on account of advertisement.	other advances.	Totals	Repayments. Adj. Made from bills for commissions.	
	Rs. a. p.	Rs. a. p.			
1931.	1,397-9-8	3,815-0-0	5.212-9-8	5.948-2-0	
1932.	2,367-5-4	7,899-2-0	8,256-7-4	6.040-5-0	
1933.	443-7-0	1,800-0-0	2.243-7-0		*5734-1-0
	4.208-6-0	13,514-2-0	17.722-8-0	11,988-7-0	5,734-1-0

*Balance of Advance not repaid.

(B) COMMISSION ACCOUNT

Year.	Commission paid on Bills prepared by the Company's Office	Commission due revised by the office in accordance with the legal opinion referred to in (ii a)	Over payment of commission.
1931	6255-4-0		
1932	6.030-4-0	11.610-10-0	674-14-0
	12.285-8-0		

Total amount due by Messrs. Neelkantan & Company, :- Rs.6,408-15-0

According to the terms of the Contract, "Cash Security of Rupees Two Thousand is to be paid by the General and Chief Agents or a portion of their bill to be deducted every month till such time when the required sum of Rs.2,000/- is collected". Account A shows that instead of taking security from the Agents, moneys have been advanced in excess of the amounts due to them with the result that a sum of Rs.6,408-15-0 is due by them to the Company. Even if the Court's decision is in favour of the Company, the recovery of the above sum of Rs.6,408-15-0 is doubtful of recovery from Messrs. Neelkantan & Company. who have described themselves as paupers.

In the case of any sum not recoverable from them, the Managing Agents should have to be held responsible for the loss to that extent as they did not take security required by the agreement and moneys are advanced to Messrs. Neelkantan & Company. in excess of their claims for business done.

Inaccurate provision for commission due to Agents in 1931 and 1932, and its effects

A sum of Rs.12,875-13-6 appearing on the Income Side of the Revenue Account for the calender year 1933 is explained as "excess of Commission provided in previous years now ~~received~~". Instead of providing commission at the rates ranging from Rs.2-8-0 to Rs.2-12-0 per certificate issued in the case of approved applications for entrance into the scheme and at 4 to 5% in the case of monthly calls, a uniform rate of Rs.3/- per application and 5% in the case of calls had been provided and this excess provision resulted in an excess charge in previous years, credit for which has been taken in 1933. A correct provision in the previous years would have left no surplus of Income for 1933 rendering the declaration of dividend, Bonus etc., in that year as has been done by directors impossible and would have reduced the contribution to the Reserve Fund for the same

year by Rs.3,715-11-10 (i.e., Rs.12,875-13-6 Minus Rs.9,160-1-8, surplus of Income for 1933 shown in Revenue Account)

11. TRAVELLING EXPENSES.

a) The Managing Agents Expenses - Excess Rates

A Review of the Travelling Allowance Bills shows that the scale of rates according to which Travelling Allowances are drawn is as follows:-

The Minutes of the Board meeting show that the T.A. Bill amounts have been passed but no specific approval of the scales of rates is found.

i) Single second class for Railway fare, and a dailway allowance of Rs.5/-
ii) a uniform rate of 6 annas a mile for distances travelled by motor car irrespective of distances travelled in a day.
iii) "Cart" hire claimed invariably at Re.1/- a mile for journey made by carts to places inaccessible to Car. In some instances rate claimed is more than Re.1/- a mile.

Though it may not be possible to lay down hard and fast rules in the case of commercial concerns as to the T.A. rules which should be followed, the principle applying to a Government Officer that the T.A. is intended to cover the actual travelling expenses incurred in travelling in the interest of the Public and that the T.A. is not to be considered as a sorce of profit ap plies equally well to a private concern also. In view of the following remarks this principle does not seem to have been observed.

In the case of Government Department a rate of Rs.5/- D.A. applies to an officer whose pay is Rs.800/- or more but does not exceed Rs.1,200/- and a rate of Rs.4/- D.A. applies to an officer

whose salary exceeds Rs.600/- but is less than Rs.800/-. In a concern, like the Mutual Benefit Scheme which is stated to have been started as a social scheme intended to help the poor and which is financed by poor people generally, a D.A. of Rs.4/- would appear reasonable.

Regarding (ii) A sliding scale depending on the distances travelled at a time in a day i.e., a certain rate for the 1st Fifty miles and 2/3 rd of this rate for any distance travelled in excess of the above 50 miles, is fixed in Government Departments as it is considered on nature consideration that the average expenditure in case of long journeys works out less than in the case of short journeys and that the above scale is reasonable. Taking the mileage allowed to a Government officer whose D.A. is Rs.5/-, a rate of 6 annas for the first 50 miles and a rate of 4 annas per subsequent journies would appear to be quite fair to the agents also. A few cases of long distances travelled by motor car are given below:-

T.A. Bill dated,	Amount of Bill.	Period of Journey	Miles travelled by car.	Amount Claimed.
a) 2-1-1936 (Mr. Thirupathi)	262-8-0	26-12-1935 to 1-3-1936	620-IS	232-8-0
b) 22-8-1933	..	11th to 20th Aug.1933.	567	212-10-0
c) 21-9-1933 (Mr. Balija.	..	11th to 19th Sept.1933.	370	138-12-0

Items (b) and (c) journey was done by Mr. Balija in his car. In case (a) journey was made by hired car and no payee's receipt was available to support the claim of Rs.232-8-0

Regarding iii. rate of cart hire claimed is excessibe even

in view of what is paid (6 annas) to a Government officer whose pay is Rs.800/- and more. In some instances, a lump sum amount is claimed without noting the distances travelled and it is not possible to say whether in these cases the rates claimed are not even more than one rupee per mile and a few instances are give below:-

T.A. Bill dated.		Amount of cart hire claimed
21-7-1932	for Rs.103-4-0	Rs.15/-
26-9-1932	for Rs.125-4-6	Rs.9-8/-
21-9-1933	for Rs.130-12-0	Rs.29/-
6-2-1934	for Rs. 46-8-0	Rs.11/-

In the following instances, there is nothing to show that the journeys by motor car were necessary resulting in a charge to the company for more than what would have been the case if the journey had been made, by Railway.

Particulars	Distance for which mileage is claimed.	Amount of mileage at 6 annas a mile.	Corresponding Railway fare. (To &fro journey)
T.A.Bill of 21-8-34 to appear before the 1st Class Magistrate Kolar.	135 miles.	50-10-0	10-0-0
T.A. Bill of 29-4-33 to go to Kolar in connection with the evidence to be given before the 1st Class Magistrate.	168 miles.	63- 0-0	10-0-0
do- to go to Tumkur, to attend 1st Class Magistrate's court in connection etc., etc., 26th & 27th July 1934.	98 miles.	36-12-0	3-4-0

In some cases cars were hired at a lump sum rate per day and payee's receipts were not found in support of these payments.

Why these journeys could not have been made by Rail at an appreciably less expense to the concern is not possible to say since the reasons therefor are not noted

E.G.,

	No. of days of hire.	Car hire paid.
of T.A. Bill dated 31-5-1932 to Mysore.	2	Rs. 40/-
-do- 13-10-1932 to Tumkur.	4	Rs. 60/- (B)

(b) Test audit of a few T.A. Bills showed that the journeys were undertaken to investigate death claims. But the bills do not generally furnish details of journey, i.e., places visited, dated of visit, the particular work done there etc., and it is not therefore possible to see that all the places visited by the agents were in the interest of the work of the company. Except in one or two cases, there is to the T.A. Bills showing the work done.

e.g.

(a) T.A. Bill dated 20-1-1933 journeys from 22-12-1932 9-1-1933 include a distance of 1865 miles travelled in Company's car places travelled not mentioned.

(b) T.A. Bill dated 29-4-1933 to Tiptur etc., places on 26th and 27th April 1933 includes the item of car hire at 6 annas a mile for 261 miles Rs. 97-14-0

and T.A. Bill for the trip to investigate claim etc., in Nagamangala, Kunigal, and Thurvekere etc., - between 11th

and 19th September includes car hire for 370 miles at 6 annas a mile Rs.138-12-0, "etc". What places are included in "etc", is not possible to say.

ii) A sum of Rs.516 and odd was spent towards the travelling expenses of the secretary of the company from 6-10-1932 to 5-12-1932 to study and report upon the working of the Dividing Insurance Schemes run by several similar companies at Madras, Bombay, Calcutta and Delhi. As a result of the report that the schemes are not working satisfactorily and the companies visited are thinking of stopping the scheme, it was stated that this company also stopped the scheme. There was no necessity for this journey in view of:-

(a) The Director's report to the share holders proposing to stop the scheme in the early part of 1932 adverted to in para 4 (b) above, and (b) the clear warning sounded by the Actuary to the Government of India in his report on the Indian Insurance Book for 1931 that such schemes are unsound and come to grief.

12. M O T O R C A R.

Its purchase and sale to a Managing Agent.

A motor car was purchased on 8-7-1932 for Rs.4,941-15-0 with a view to help the company in its investigation of claims. After only 7 months' use it was sold to Mr. Balija, (one of the Managing Agents who was generally using the car in his investigations) on 14-2-1933 for Rs.4,334-4-4, this amount being payable by him "instalmentally at not less than Rs.500/-". The repayment is extended to over a period of 8 years, which is very long. Mr. Baliga is since dead and his son has acknowledged in March 1937 the balance of Rs.2,617-3-8 due from Mr. Balija. The advance is unsecured.

13. ADVANCES.

Heavy Drawals by Mr. Balija, one of the Managing Directors

Accounts of the Calender year 1932 show that Mr. Balija has drawn on his personal account large amounts from the company during the above year, the drawings being heaviest in August (Rs.3,235/-) and September (Rs.1,600/-). These have been adjusted to a large extent in December 1932 leaving a balance of Rs.1,390-7-9 on 31st December 1932. He has drawn separate advances for Travelling Expenses and the reasons for drawing these heavy amounts have not been explained. Such drawals are not contemplated either in the Memorandums or Articles of Association of the Company or in the prospectus of the Mutual Benefit Scheme. These advances have been ratified by the Board of Directors in their meeting dated 14-2-1933 i.e., long after these amounts have been drawn and the Directors could not but ratify since the amounts had already been drawn. There was also a meeting in September 1932 but the matter had not been placed before the Directors.

Admission/Fees

14. Cash Book and Non-Verification of Cash Balance.

(a) Cash Book for the calender year 1931 does not show any record that cash Balances have been checked, the only entry of actual verification being that by the auditor of the Company on 6-7-1932

After the closing of the Cash Book for the year ended 31st December 1931. some receipts aggregating to Rs.44-8-0 and payments aggregating to Rs.119-0-0 relating to June, July and August 1931 were found entered in the Cash Book and the difference between the above amount viz., Rs.74-8-0 was taken as the amounts "made good occasionally by Mr. H.C. Ganesha Rao and credited to his account" instead of treating it as excess cash found. Details for the sum of Rs.74-8-0 showing the dates on which the amounts were paid by Mr. H.C. Ganesha Rao, were called for from Secretary (who is Mr. Ganesha Rao himself) and were stated to be not available. The balance sheet as on 31-12-1931 does not represent under the above circumstances the true state of affairs since the credits are not stated correctly to the above extent. Absence of check of Cash Book and cash balances by responsible higher officers and such belated entries vitiate the value of such an important primary record as the cash book. The sum of Rs.74-8-0 should not have been paid to Mr. H.C. Ganesha Rao, who was the accountant and was maintaining the Cash Book. On the other hand, he should have been held responsible for the belated entries.

(b) Admission Fees.

Admission fees received according to the Cash Book from the commencement of the scheme on 31-7-1930 till its stoppage on 1-3-1933 aggregated to Rs.1,43,286-9-0 as detailed below, (the details were given to the Secretary during inspection), corresponding to 26052 applicants for membership to the scheme. - But the Register of application shows the number of applications

and the amount of admission fees received to be 26.054 and 1.43.297/- respectively. What this difference is due to - whether it is due to any omission of bringing receipt into Cash Book or, for any other cause - has not yet been traced. A sum of Rs.402-7-0 received as admission fees but for which certificates were not issued is still found not to have been returned to the respective parties.

Total admission fees collected appearing in the Revenue Accounts from 1930 to 1933.		Rs.1,40,635/-	Corresponding number of application. 25,570
Add amounts refunded to parties in			
1931	136-8-0		25
1932	1,348-2-0		245
1933	698-4-0		127
1934	60-8-0		11
1935	5-8-0	2,249-2-0	1
Amount held in suspense on 31-12-1935 for which certificates have not been issued.		402-7-0	73
	Total.	1,43,286-9-0	26,052

15. CONCLUDING REMARKS.

(a) The scheme was started on 31st July 1930 inspite of the adverse opinion of the company's Actuary and was not stopped in the early part of 1932 though the Directors had got a modified scheme prepared by the Company's Actuary with a view to introduce it since they considered the scheme as unsound and unscientific.

As the Actuary of the Government of India stated in his year Book for 1831, that such schemes of Dividing Insurance would lend themselves to fraud and come to grief, this scheme also suffered from similar experience. The previous paras explain also

misapplications of rules resulting in overpayments, incorrect and insufficient provision for Reserve Fund, wrong surpluses and irregular appropriation thereof to declare Dividend. Bonus etc. . . .and

severe forfeiture at a certain stage resulting in loss of benefits of the scheme to the members who have been refused reinstatement though the rules were modified to give benefits of reinstatement to such defaulters.

here is at present a possibility for the company to be involved in a law suit for 4 lakhs of rupees by an Agent for an alleged unlawful termination of the contract entered into by the company with him. By failure to take cash security from the agent and paying advances far in excess of the claims due to him, there is almost a certainty of the company's losing a sum of Rs.6,408-15-0 due by him.

(b) The Managing Agents have got prepared by the Company's Actuary three alternative schemes under the Regular Life Insurance Business for conversion to Life Policies and these are open not only to the members whose certificates are in force but also to defaulters. The conversion scheme has been taken advantage of during 1934 and 1935 resulting in 269 policies

A certain portion of the Reserve Fund is transferred from the Reserve Fund to Life Insurance Fund. as a result of conversion of the certificates into Life Insurance Policies. The Managing Agents have not consulted as to the adequancy or other wise of the basis adopted by them in arriving at the amount to be transferred.

(c) The books of the scheme show a Reserve Fund of Rs.1,41,529-4-2 on 31-12-1936. In view of the reduced contribution to the Reserve Fund on account of overpayments etc., and of transfer of a portion of the Fund to Life Insurance Fund on account of the conversion of the certificates into Life Insurance Policies, it is desirable to have the views

of an Actuary as to whether the Reserve Fund is sufficient to cover the Liability of the Scheme.

(d) According to Rule 11 (A), "The Reserve Fund should almost be invested in Government and other gilt edged securities". The Books show an investment of Rs.1,07,112-8-0 in State Loan Bonds, post office cash securities and of Rs.15,000/- in foreign deposits in the Appex Bank which have been verified during inspection

In addition to the above the following amounts are found to the credit of the Scheme on 31-12-1936.

Rs.42,854-14-0 in Government Savings Bank.
20,660- 4-0 in Mysore Bank, Limited.
1,175-13-4 in the several Branches of the Imperial Bank of India, Limited.
4,796-12-4 in the Mysore Provincial Appex Bank, Limited.

Total on 31-12-1936 including investments is Rs.1,91,600-4-11.

16. REGULAR LIFE INSURANCE BUSINESS.

(a) The above business was commenced on November 1924 and the following table gives its progress from the commencement till the end of the calender year 1936.

Year.	Policies during.	Policies in force up to end of.	Total Assurance in force at the end of.	Life Insurance Fund at the end of
1925.	104			75
1926.	66		1,32,500	7693
1927.	41	122	1,22,500	7686
1928.	53	122	1,57,000	7355
1929.	24	98	1,23,000	7886
1930.	1	63	81,500	6165
1931.	Nil.	58	57,153	6415
1932.	Nil.	75	83,653	1,047
1933.	12	66	55,019	7,982
1934.	90	137	1,03,620	18,218
1935.	173	231	1,61,384	18,478
1936.	289	Not worked out by the company.		

As there was practacally no business in 1930 and in the Financial position had not improved, Mutual Benefit Scheme was started on 31-7-1930. It helped the Life Insurance Business by :

(i) Taking over the major part of the expenses, the portion debitable to the Life Insurance Business being the First Year's premium and 20% of the Renewal premium

(ii) transferring its surplus to the extent of Rs.15,090-2-11 enabling the Regular Insurance Business to wite off its accumulated loss and to acquire Government of India Bonds of F.V. Rs.20,000/- paid for out of the Mutual Benefit Scheme funds. Credits to the extent of Rs.7,265-1-0 as a result of the appreciation of these Bonds was taken in 1933. The above explains the sudden phenomenal improved position of the Life Insurance Fund from 1931 and onwards, though the yearly addition to Business was almost nil.

The improvement in Business in 1935 and 1936 was due to the conversion of the Mutual Benefit Scheme certificates to Life Insurance Policies, the contribution being 91 in 1935 and 178 in 1936.

(b) As explained in para 15 (b) above, the Regular Life Insurance Scheme may expect a large volume of business from the Mutual Benefit Scheme certificate holders converting their certificates into Life Policies, - especially from the defaulters and members who have been denied reinstatement since there is now a chance for them to get in this way a return for a portion of t

they had lost through default and Directors' refusal to rem

ACTURIAL VALUATION IN 19[illegible]

Acturial valuation of the assets and Liabilities of the Life Insurance Business as on 31-12-1933 showed a surplus of Rs.1,979/- which has been retained in the business itself under the advice of the Actuary. To know the present financial position, Acturial valuation is now necessary.

ADVANCE TO AGENTS.

18. A sum of Rs.4,477-4-0 is shown as due from 25 Agents on 31-12-1936. Except the amount due from one agent, all the others are unsecured. In the case of 6 agents a sum of Rs.3,340-9-0 is due. Out of these, suits to the extent of Rs.374-4-0 due from 2 agents are already filed and regarding the balance, it is under contemplation to take action.

ALLOTMENT OF MONEY IN ARREARS Rs.4375/-.

19. According to para 16 of the Articles of the Company, the allotment amount, immediately on the allotment of shares becomes a debt due to, and recoverable by the company from the allottee and shall be paid by him. The amount of Rs.4,375/- shown in Balance Sheet as in arrears on 31-12-1935 is due from the commencement of the company in 1923 and is not recoverable under ordinary laws applicable to debts. But there is nothing to prevent the company from keeping the debt open and such an exhibition of the arrears in the Balance Sheets as is done in that of this company is usual. It is seen from correspondence that by such an exhibition, there is a possibility of misconception

in the minds of the Share Holders and others, that the arrears are recoverable. To avoid such a misconception the year from which the amount is outstanding may be noted in the Balance Sheet.

Sd/ Venkatarama Iyengar

True Copy.

for Registrar

List showing the number of deaths and the amount of Bonus paid in each case.

Month & Year.	No. of deaths paid.	Amount paid each.	Rejections.
May. 1931.	1	1,000	..
July. 1931.	1	1,000	..
August.1931.	4	1,000	..
September. 1931.	1	1,000	..
October. 1931	2	1,000	..
November. 1931.	2	1,000	..
December. 1931.	2	1,000	..
January 1932.	4	1,000	1.
February 1932.	8	1,000	1
March 1932.	7	1,000	1
April 1932.	9	1,000	1
May 1932.	14	634	..
June 1932.	16	645	1
July 1932.	14	708-12-0	1
August 1932.	22	464-14-0	2
September 1932	31	345- 4-0	A case to court.
October 1932.	28	395- 0-0	..
November 1932.	31	273- 3-0	1
December 1932.	34	219- 2-0	..
January 1933.	39	189-7-0	..
February 1933.	36	221-10-0	2
March 1933.	41	171-14-0	2
April 1933.	36	204-10-0	..
May 1933.	31	226- 8-0	2
June 1933.	34	201- 5-0	1
July 1933.	41	157- 6-0	3
August 1933.	34	183- 0-0	3
September 1933.	34	180- 6-0	2
October 1933.	38	158-11-0	..
November 1933.	40	151-11-0	..
December 1933.	41	128- 0-0	..
January 1934.	42	106- 8-0	..
February 1934.	35	137-14-0	..
March 1934.	33.	136- 9-0	..
April 1934.	30	147-14-0	..
May 1934.	30	142- 4-0	..
June 1934.	20	215-11-0	..
July 1934.	23	176-12-0	..
August 1934.	20	214- 7-0	..
September 1934.	30	134-14-0	..
October 1934.	27	148- 2-0	..
November 1934.	20	212-14-0	..
December 1934.	24	159-13-0	..
January 1935.	24	144-15-0	..
February 1935.	21	180-2-0.	..
March 1935.	22.	162- 2-0	..
April 1935.	22	164- 4-0	..
May 1935.	14	278- 5-0	..
June 1935.	14	257- 0-0	..
July 1935.	18	186-10-0	..
August 1935.	18	187-13-0	..
September 1935.	20	196- 5-0	..
October 1935.	19	180-12-0	..
November 1935.	24	148- 2-0	..
December 1935.	19	172- 8-0	..

IN THE COURT OF THE DISTRICT JUDGE,BANGALORE.

O.S.NO. 182 of 1935-36.

1. A.S. Veeraraghava Iyer,
2. Minors A.D. Subramanian,
3. A.D. Srinivasan,
4. A.D. Gurumoorthy,
Minor Plffs. by their next friend and guardian 1st Plaintiff. — Plaintiffs.

Versus

The Reliance Assurance Co.,Ltd., Bangalore City by Managing Agents Messrs. Thirupathi Balija & Co. — Defendants.

Application for leave to sue as a pauper under Order 33, Rule 1 of the Mysore Civil Procedure Regulation.

For the reasons contained in the accompanying verified memo, the plaintiffs pray that they may be allowed to sue as paupers (the 1st plaintiff for himself and as next friend of the pauper minor plaintiffs 2,3 and 4) and that they may be exempted from payment of the Court fee payable on the plaint in the above suit and for such other reliefs as the Court may deem fit and proper in the circumstances of the case.

May 1936.

(Sd). A.S. Veeraraghava Iyer.
1st Plaintiff for himself and as next friend of minor plaintiffs 2,3 and 4.

District Court, Bangalore.

O.S. No. ---- of 1936.

A.S. Veeraraghava Iyer and others — Plffs.

Vs.

The Reliance Assurance Co., Ltd., Bangalore. — Defts.

Application for leave to sue as paupers.

Plaintiffs in person.

11/5/36

IN THE COURT OF THE DISTRICT JUDGE,
BANGALORE.

O.S. No. of 1936.

A.S. Veeraraghava Iyer and others Plaintiffs.

Versus

The Reliance Assurance Company,Ltd., Bangalore. Defendants.

Verified Memo of A.S. Veeraraghava Iyer.

I, A.S. Veeraraghava Iyer, son of A. Sesha Iyer, aged about 42 years, Hindu, Brahmin, profession nil, and residing at No.93/104, Second Main Road, Chamarajpet, Bangalore City, do hereby state as follows:-

1. That I am the first plaintiff herein and am well acquainted with the facts of the case.

2. That the above suit is instituted by me for myself and as the next friend of the minor plaintiffs 2,3 and 4 for balance of commission due and for damages for unlawful termination of the contract of agency entered into by myself and the deceased father of plaintiffs 2,3 and 4 under the Firm name and style of Neelakantan & Co., with the defendant on 1-4-1931 and amounting to Rs 4,00,000/-.

3. That neither myself nor the minor plaintiffs 2,3 and 4 are possessed of sufficient means to enable us to pay the court fee payable as neither myself nor the minor plaintiffs 2,3 and 4 are entitled to property worth more than One hundred rupees other than our necessary wearing apparel and the subject matter of the suit.

4. Under the circumstances, I pray that I may be

allowed.....

allowed to sue as a pauper for my own self and as next friend of the minor plaintiffs 2,3 and 4 who are also paupers and in their behalf and that payment of court fee payable and amounting to Rs 3000/- on the plaint may be exempted.

Bangalore.
This 11th day of May 1936.

(Sd.) A. S. Veeraraghavier.

Schedule of Property.

Description.		Value.
Immoveable Property - Nil		Nil.
Moveable Property such as Household utensils - value.		70-0-0.
Assets of Neelakantan and Co., excepting the subject matter of the suit.	Nil	Nil.
Total Value of Assets.		Rs 70-0-0.

District Court, Bangalore.

O.S. No. of 1936.

A.S. Veeraraghava Iyer and others Plffs.

Vs.

The Reliance Assurance Co.,Ltd., Bangalore. Defts.

Verified Memo of A.S. Veeraraghava Iyer.

Plaintiffs in person.

IN THE COURT OF THE DISTRICT JUDGE,BANGALORE.

O.S. NO. OF 1936.

1. A.S. Veeraraghava Iyer, 2. Minor A.D. Subramanian, 3. Minor A.D. Srinivasan, 4. Minor A.D. Gurumoorthy, Minor Plffs.2 to 4 by guardian and next friend A.S. Veeraraghava Iyer.	PLAINTIFFS.

Versus

The Reliance Assurance Co.,Ltd., a Company carrying on business in Bangalore with its registered Office at New Tharagupet, Bangalore City, by Managing Agents Messrs. Thirupathi Balija & Co.	DEFENDANTS.

PLAINT UNDER ORDER VII, RULE I, MYSORE/ CIVIL PROCEDURE REGULATION.

The Plaintiffs abovenamed state as follows:-

1. The first plaintiff A.S. Veeraraghava Iyer, is the son of A. Sesha Ayyer, aged about 42 years, profession N I L., and is residing at No.93/104, Second Main Road, Chamarajpet, Bangalore City, which is his address for service of all notices.

The Second plaintiff A.D. Subramanian is aged about 14 years; The Third Plaintiff A.D. Srinivasan is aged about 6 years; The Fourth Plaintiff A.D. Gurumoorthy is aged about 3 years.

Plaintiffs 2,3 and 4 are the minor sons

of the late A.S. Duraiswami Iyer and represented by their paternal uncle and next friend A.S. Veeraraghava Iyer, the first plaintiff herein and at the abovementioned address.

2. The Defendant is the Reliance Assurance Co., Ltd., a company carrying on business at Bangalore City with its registered office at New Tharagupet, Bangalore City and represented by its Managing Agents Messrs.Thirupathi Balija & Co., at the registered address of the Company which is the address of the defendant company for service of all summons, and processes.

3. The first plaintiff and the father of the of the second, third, and fourth plaintiffs under the name and style of the Firm of Neelakantan & Co., entered into an agreement in duplicate with the defendant company on 1-4-31 whereby the defendant company agreed to appoint and the said Neelakantan & Co., agreed to act as the General Chief Agents of the Defendant-Company for the whole of the Reliance Mutual Benefit Scheme and for such other work in connection with the business of the defendant Company.

4. The terms and conditions of the said agreement being:-

(a) that the General Chief Agents should furnish a security of Rs 2000/- either in cash or permit the deduction by the defendant of a portion of the commission payable to the General

Chief.....

Chief Agents to make up the security demanded;

(b) that an aggregate business of one lakh of members must be guaranteed to be effected by the end of the contract period by the General Chief Agents either by themselves or through their Sub Agents.

(c) that a commission of Rs 2-12-0 per member out of the stipulated commission of Rs 3/- per member was payable in the first instance together with 5% on call amounts as renewal commission till the completion of thirty five thousand members by the end of the second year when the balance of commission of 4 annas per member will be permitted to be drawn by the General Chief Agents and again thereafter at Rs 2-12-0 per member till the completion of the guaranteed business by the end of five years when the balance of commission of 0-4-0 per member was payable; and on failure to complete the guaranteed business within the contract period the excess commission at 0-4-0 per member if permitted to be drawn will be refunded by the General Chief Agents;

) that the contract was to remain in force for five years from 1-4-1931 to 31-3-1936

unless.....

previously terminated by the defendant,

(i) on failure by the General Chief Agents to complete a business of fifteen thousand by the end of the first year;

(ii) or on the breach of any of the conditions of the agreement either by the General Chief Agents or by their sub agents;

(iii) or on the General Chief Agents being found guilty of any criminal offence by a criminal court.

(iv) or on the change or dissolution of the firm of Neelakantan and Co.

5. That the said Neelakantan & Co., acted as such General Chief Agents of the defendant on the above terms and conditions after agreeing to the security amount of Rs 2,000/- demanded of them being deducted out of the commission payable. And during the period of acting as such agents a total business of 23,665/- members was completed and after crediting the several payments made to the sub agents and to the said Neelakantan & Co., the balance of commission payable at Rs 2-12-0 per member and renewal commission at 5 per cent, inclusive of the security amount and together with interest thereon at 12% per annum from 2-5-1935 is as follows:

Commission payable on 23665 members at Rs 2-12-0 per member.		Rs 65,078 12 0.
Renewal Commission at 5%		Rs 19,948 7 0.
Total due.		Rs 85,027 3 0.
Payments to Sub Agents	45,506 10 6.	
Payments to Nilakantan & Co.	16,785 8 0	
		Rs 62,292 2 6.
Balance due.		Rs 22,735 0 6.

Balance due	Rs 22,735 0 6
Interest at 12% from 2-5-33 to 11-5-1936.	Rs 8,260 8 0
TOTAL.	Rs 30,995 8 6.

6. The defendant company having decided to stop the business under the Mutual Benefit Scheme in or about the end of February 1933, on 2-5-1933 unlawfully and illegally gave notice of termination of the agreement in spite of the willingness of the said Neelakantan & Co., to continue performance of the terms of the agreement as per terms and conditions thereof. The defendant terminated the agreement and thereby prevented the said Nilakantan & Co., from performing their part of the agreement and earning their commission. The defendant is therefore liable in damages to the said Nilakantan & Co., to the extent of the net commission that would have been earned by them after meeting the expenses of sub agents; excess commission of 0-4-0 per member on business effected before breach of the agreement together with x interest at 12 per cent. per annum from 2-5-1935 to date of the suit, and renewal commission on the guaranteed business till the completion of the certificates by maturity or death as follows:-

(i)	Balance Commission on 23 members at 0-4-0 per member.	Rs 5,916 4 0.
	Interest at 12% from 2-5-33 to 11-5-36.	Rs 2,150 12 0.
	Total	Rs 8,067 0 0.

(ii) Commission on 73665 members balance of guaranteed business

at 1-8-0 per member.	Rs 1,10,497 8 0
(iii) Renewal commission on one Lakh of members at 2% till the completion by maturity or death of the members.	Rs 2,50,439 15
Total damages.	Rs 3,69,004 7

7. The said Neelakantan & Co., were always ready and willing to perform their part of the contract but the defendant prevented ~~fr~~ them from doing so and the said Neelakantan & Co., have been unable to obtain another situation and have remained unemployed throughout.

8. The defendant is therefore liable to pay the said Neelakantan & Co's representatives in interest the sole surviving proprietor the 1st plaintiff and the minor sons and legal representatives of the other proprietor A.S. Doraiswami Iyer who died on 30-11-1935, the 2nd 3rd and 4th plaintiff, the balance of commission of Rs 30,995-8 and the damages of Rs 36,9004-7-6, aggregating to Rs 4,00,000/- with interest at 12 per cent per annum from date of the suit to date of decree at such rate.

9. The cause of action for the suit arose on 2-5-1936, the date of termination of the contract and on subsequent dates when the defendant has agreed to respect the rights of the said Neelakantan & Co., under the contract and within the jurisdiction of this Hon'ble Court as the breach of contract occurred within Bangalore where the defendant is carrying on business.

10. The value for purposes of jurisdiction and for purposes of Court fee is Rs 4,00,000/-. The court fee payable thereon is Rs 3,000/- vide separate application and verified memo for leave to sue as a pauper.

11. The Plaintiffs therefore pray that this Hon'ble Court may be pleased to:-

(i) pass a decree against the defendant in favour of the Plaintiff for Rs 4,00,000/- (Four Lakhs of Rupees) with interest at 12% per annum from date of suit to date of decree and thereafter till date of payment at such rate as the Court may deem fit and proper;

(ii) order the defendant to pay the Plaintiffs the costs of the suit;

(iii) order such other or further reliefs as to this Hon'ble Court may seem fit and proper in the circumstances of the case.

(Sd). A.S. Veeraraghavier.
Plaintiff.

Dated at Bangalore,
this 11th day of May 1936.

I, A.S. Veeraraghava Iyer, 1st plaintiff herein for myself and as the next friend of the minor plaintiffs, 2,3 and 4 do hereby declare that the facts mentioned above are all true to the best of my knowledge and belief and believe the same to be true.

Dated at Bangalore (Sd). A.S. Veeraraghavier.
Plaintiff.
this 11th day of May 1936

List of Documents filed with the Plaint.

S.No.	Date.	Parties.	Description.	Remarks.
1.	1-4-31.	Between the Plff. and Defendant.	Agreement.	
2.	14-2-33.	By Deft. to Plff.	Letter.	
3.	11-2-1933	By Defendant to All agents & sub Agents.	Circular.	
4.	15-2-1933.	By Plff. to Deft.	Letter(copy)	
5.	16-2-1933.	By. Deft. to Plff.	Letter.	
6.	27-3-1933	By Plff. to Deft.	Letter (Copy)	
7.	do.	By Do. to Do.	Do.	Do.
8.	4-4-1933.	By Deft to Plff.	Do.	
9.	7-4-1933.	By Plff. to Deft.	Do.	Do.
10.	13-4-1933.	By Deft. to Plff.		
11.	2-5-1933.	By Plff. to Deft.	Do.	Do.
12.	Do.	By Deft. to Plff.	Do	
13.	Do.	By Do. to Do.	Do.	
14.	Do.	By Do. to Do.	Do.	
15.	11-5-33.	By Plff. to Deft.	Letter (Copy)	
16.	15-5-1933.	By Deft. to Plff.	Letter	
17.	26-5-1933.	By Plff. to Deft.	Do (Copy).	
18.	31-5-1933.	By Deft to Plff.	Do	
19.	22-6-1933.	By plff. to Directors of Deft. Co.,	Notice.	
20.	8-7-1933.	By Deft. to Plff.	Letter.	
21.	20-7-1933.	By Mr.M.P.Sundara-raja Iyer Attorney, to the Defts.	Letter.	
22.	24-7-1933.	By Deft. to Plff.	Letter.	
23.	19-8-1933.	By Mr.M.P.Sundara-raja Iyer Attorney to the Defendent.	Letter (Copy)	
24.	29-8-1933.	By defendent's vocate to M.P. ndararajiyer.	Letter.	

25.	13-4-36.	By Mr. S. Ramanathan Advocate, to Defendant.	Letter (Copy)
26.	15-4-1936.	By Mr. M. Sreenivasa Rao, Advocate to Deft. Mr. S. Ramanathan Advocate.	Letter.
27.		Annual Reports of the Defendant Company for 1931, 1932, 1933 & 1934.	

Plaintiffs.

(Sd. A. S. Veeraraghavier.

49091-10-0
60781-8-0
1,09873-2
75000
25-

District Court; Bangalore

O.S. No. of 1936.

A.S. Veeraraghava Iyer
and others. Plffs.

Vs.

The Reliance Assurance
Company Ltd.,Bangalore. Defts.

Objections. 29-6-36.

P L A I N T.

S. RAMANATHAN, B.A., B.L.,

Advocate.

12, Solayappa Mudali Street,
Mylapore,
Madras, 13-4-1936.

To

The Reliance Assurance Company, Limited,
New Tharagupet,
Bangalore City

Sirs,

Under instructions from my client Messrs. Nilakantan & Co., Chamarajpet, Bangalore City, I have to give notice to you as follows:-

1. That my clients entered into a contract of General Chief Agency with you on 1-4-1931 for a period of five years from the date of agreement and that the said contract was terminated by you unlawfully and illegally on 2-5-1933.

2. By the terms of the agreement my clients are entitled to get their commission, renewal commission, commission on calls, etc., on all the business effected by them and on the business guaranteed to be effected by them and which they would have effected but for theunlawful termination of the agreement by you.

3. I have been instructed to inform you that my clients' claim under the head of commission etc., on business already done before the termination of the agreement after crediting the several payments made from time to time amounts to Rs 34,523/- (This is with interest at 12 per cent per annum on the amount due viz., Rs 25,384-4-6 from the date of termination of the agreement up to date) together with commission etc., which would have been earned by my client on the balance of guaranteed business as per terms of the agreement amounting to Rs 3,65,477/- all aggregating to Rs 4,00,000/- (Four Lakhs).

4. Please take notice therefore that unless the above amount of Rs 4,00,000/- (Rupees Four lakhs) is paid either

.o me or to my client within 3 days from the receipt a suit will be instituted for recovery of the amount together with interest at 12 per cent.per annum and all costs incidental thereto. Take notice further that effec steps will be taken to ensure and guarantee payment of the amount due to my clients.

5. Hoping that in view of the business relationship be' ıy clients and the Company and in the best interests of t ompany my clients'. claim will be settled early.

Yours faith_fully,

(SD) S. Ramanathan.

"TRUE COPY".

GOVERNMENT OF MYSORE.

'ply please
or to
344/34-35

cl.

Office of the Registrar of Joint Stock Companies in Mysore.

Dated Bangalore 11th December 1934.

From,

D. Srinivasa Iyengar, Esq., B.A.,

Registrar of Joint Stock Companies in Mysore.

TO,

K. Naryana Iyengar, Esq.,

Proprietor, Caxton Press,

Bangalore City.

Sir,

With reference to your letter dated 19th November 1934, regarding certain defects in the working of the Reliance Assurance Co., Ltd., I have the honour to point out that these are matters which seem to be best threshed out by the shareholders at the General Meeting of the Company, when, information on all these and other points can be obtained by any member requiring the same.

2. Your observations on the defects alleged in the working of the Company have, however, been sent to the Managing Agents and the Auditors for remarks.

3. As regards the investigation to be made into the affairs of the Company, the best course for you to do is to take action as indicated in Sections 138 and 139 of the Mysore Companies Regulation.

I have the honour to be,
Sir,
Your most obedient servant,

(sd) D. Srinivasa Iyengar

REGISTRAR.

M. Srinivasa Rao.

To

15th April 1936.

S. Raman[illegible], Esq., B.A., B.L.,
Advocate, No.12, Solayappa Modali Street,
Mylapore. Madras.

Sir,

Your notice Reg. No.134 dated 13-4-1936/Mylapore on behalf of your clients Messrs. Neelakantan & Co., to the Reliance Assurance Company, Ltd., demanding Rs 400000/- has been placed in my hands with instructions to issue a reply to the same as follows:

My clients have informed your clients and their legal advisers from time to time that your clients are not entitled to any thing from the Company. Your clients possibly without showing previous correspondence on the subject have instructed you to send the notice in question with an imaginary claim for Rs 400000/-.

My clients tell me that their reply No.9272 dated 24-7-1933 to your clients, and their reply from their legal adviser dated 29-8-1933 to Mr. M.P. Sundararaja Iyer, Attorney at Law, to his notice dated 19-8-1933 are final on the subject, and there is no reason to reconsider the same.

Yours truly,

Advocate.

"TRUE COPY"

Appendix F G—1]

SUBJECT .....

....

.....

16-10-37
(Sd/- S. K. Jamkhandi

iary No. of letter replied to.....

General and Revenue Secretariat

)

Correspondence 193 .

Date of issue.....

Signed by 21.....9.....37.....

regarding the

affairs of

of / awaiting

a prosecution

against the

Concern

List of enclosures.....

Copied by ....

Examined by..... .....

Section J. S

File No. 38-36

Serial No. 2

No. D 2958
Records

To

The Registrar of J. S. Companies

Sir

With reference to ~~your letter No. C 344/~~ 34-35 dated [illegible] requesting ~~to proceed against~~ the Reliance Assurance Company ~~to wind up the~~ ~~affairs of the Insurance Companies~~ reputation and your U. O. Note dated 21-9-37 in the matter, I am directed to state the question may be stopped

The enclosures received with your letter are returned herewith

I have the

to be

yours

6.10.37

J. Deputy

11.10.37

GOVERNMENT OF HIS HIGHNESS THE MAHARAJA OF MYSORE

General and Revenue Secretariat

No. D 2958 Records

Dated, Bangalore, 11th October 1937. 1645

From

The *Secretary to the Government of His Highness the Maharaja of Mysore, Development Department.*

To

The Registrar of Joint Stock Companies in Mysore,
Bangalore.

Sir,

With reference to correspondence ending with your unofficial Note No. C. 344/34-35 dated the 21st September 1937 regarding the affairs of the Reliance Assurance Company, I am directed to state hat the question of launching a prosecution against the Company ay be dropped.

The enclosures received with your letter are returned herewith.

I have the honor to be,
Sir,
Your most obedient servant,

11.10.37.

Secretary to Government
Development Department

Mr. A.V. Kristna Murti, B.A., B.Com.,
Registrar of Joint Stock Companies
and of Firms in Mysore.

NEW PUBLIC OFFICES,

Dated Bangalore, the 29-11- 1941

D. O. No. 9. C. 1.

CONFIDENTIAL.

GEN. & [illegible] SECTT.
* 2 DEC 1941 *
AGRI. & FOREST BRANCH.

Dear Mr. Mathan,

May I request you to send a copy of the opinion of the Law Branch given in the Un-official File No.97 of 1937-38 dated the 2nd September 1937 of your Branch regarding the investigation of the affairs of the Reliance Assurance Company, Limited, as the same is required by the Registrar?

I also request that a copy of your letter No.D. 2958/J.S.38-36-2 dated 16th October 1937 directing that the question of launching a prosecution against the Company (Reliance Assurance Company Limited) be dropped, may also be sent.

Thanking you,

Yours sincerely,

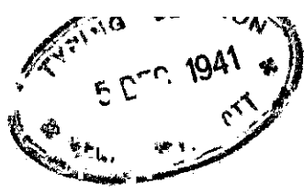
To

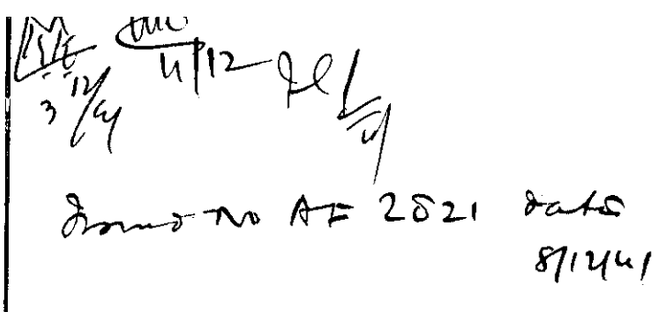
George Matthan, Esq., B.Sc.,
Asst. Secretary to Government,
Development Department,
BANGALORE.

G.R.S. III—3]

ROUTINE NOTES.

[To be used only for notes, requisitions, etc., not intended for permanent record.]





N.B.—Should routine notes be written on small slips, the notes must be copied, or slips pasted on this form.

WD 05639—36,000—GPB—20-3-40

D. O No. A 7282/ JS

GENERAL AND REVENUE SECRETARIAT

Dated Bangalore, 8th December 1941.

Dear Mr.Krishnamurthi,

With reference to your D.O.No.I.C.1 dated 29th November 1941, I am desired to enclose herewith a copy of the opinion of the Law Branch given in the Secretariat Unofficial File No.97 of 37-38 dated 2nd September 1937 and a copy of this office letter No.D.2958/J.S.38-36-2 dated 16th October 1937.

Yours sincerely,

Sd/-

A.V.Krishnamurthi, Esq., B.A., B.Com.,
Assistant Registrar of Joint Stock Companies
and of Firms in Mysore, Bangalore.

Appendix F G—1]

SUBJECT..... .....

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Section J.S

File No.

Serial No.

No. A F 2821/ [illegible]

Diary No. of letter replied to..... .....

General and Revenue Secretariat

( )

the *193* .

Date of issue 8-12-41

Signed by M. Rao

Dear Mr. Krishnamurthi

With Ref. to your D.O. No. J.C.I. d. 29.11.41 I am desired to enclose herewith a copy of the opinion of the Law Branch given in the Secretariat U.O. No. 9709/37-38 dt. 2.9.1937 and a copy of this office letter No. D. 2958-J.S. 38-34-9 dt. 16.10.37

List of enclosures..... .....

To

A.V. Krishnamurthi, Esq., B.A., B.Com.,
Asst. Regr. of J.S. & Firms,
[illegible]

Copied by [illegible]

Examined by [illegible]

WD 0563—GPB—30,000—6-1-39